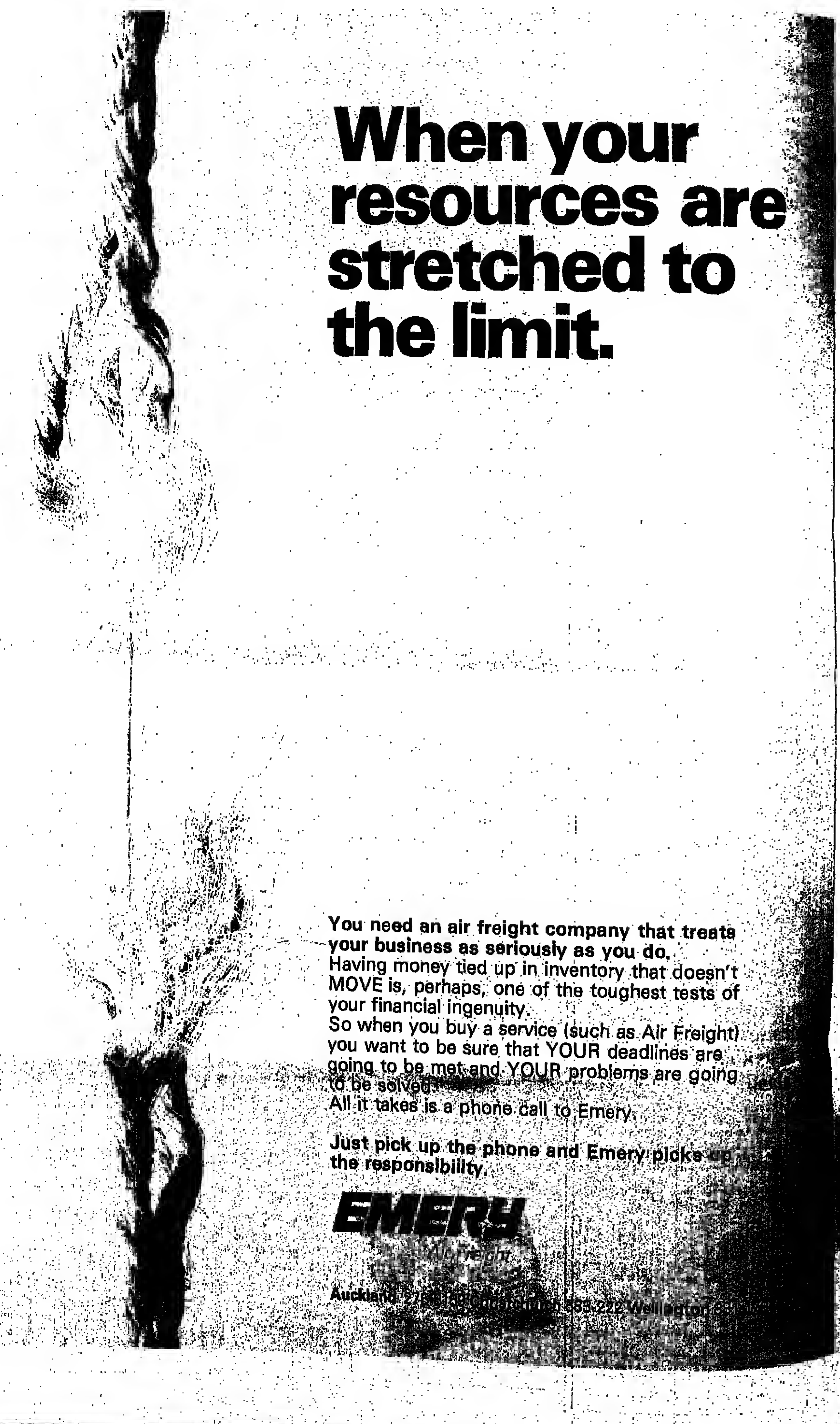

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NATIONAL BUSINESS REVIEW

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Inside

Government drops pretence of energy pricing policy

THE Government has finally abandoned any pretence that its energy pricing policy based on a ration of indigenous fuel to a barrel of oil is still operative in the changing energy economy.

At a transport operators meeting the other day, energy Minister Bill Birch was adamant that the pricing guidelines were no longer current policy.

"There is no linkage between the price of indigenous fuels and the price of imported oils," he said.

"There was in 1976"; and a policy statement reflecting the relationships which the Government saw as desirable at the time, was embodied in the 1977 Budget.

"The effect was to maintain a margin for internally produced energy sources" Birch said.

He implied that the 1977 policy had not been operative for some time but the change came as a surprise to the meeting of transport operators.

"If this is the new Government policy, then its certainly news to us," a leading industry spokesman told *NBR*.

"We'll certainly be pushing for this in writing" another said, "because it now means we can push confidently ahead with a shift toward alternative fuels."

The original policy related the price of indigenous forms of energy to the price of a barrel of oil purchased overseas.

The effect of the policy was to reduce relatively the price of locally produced resources when the oil producing countries raised the cost of a barrel of oil.

The aim was to maintain a price relationship between local and overseas sources of energy so as to encourage a switch to local sources at a time when overseas energy – mainly oil – was relatively cheap in relation to the local energy sources. In 1973 electricity was nearly four times as costly as oil per gigajoule of energy output.

By 1977 the policy was reflecting the now standard Government-Treasury philosophy (which was just coming into practice at the time) that the price of a commodity should accurately reflect the cost of its production.

An elaborate series of ratios was devised relating the price of each form of energy, both to its cost and to the priority that the Government assessed for it in terms of usage.

Taking imported oil as the basis, for example electricity was put at 150; that is, the energy content of electricity cost the consumer 50 per cent more than oil for an equivalent amount of energy, following the 1977 Budget.

Other parts of the policy set gas at 75, coal at 59. From mid 1973 the relative cost of coal had dropped from 132 to 59, natural gas 134 to 75 and electricity from 362 to 150.

The transport operators told Birch that the Government's energy pricing policy was discouraging oil users, particularly in manufacturing and transport, from switching to local energy forms because of the continuing price rises in indigenous fuels.

It was argued that maintaining the 1976 relationships in price did not provide enough economic incentive to change. The savings in running costs still did not compensate for the extra capital investment, it was claimed.

Birch assured the operators that "as the price of oil moves, there will be no necessary movement in the price of other fuels."

"The policy has been understood in a way which was never intended," Birch said.

While Birch was making no guarantees about any price freeze on alternative fuels, he made it plain the old price relationships were a dead letter.

"I'm not expecting the real price of indigenous fuels to change overmuch, except where it is necessary to change the prices to recover investment costs", Birch said.

Although Birch was not pressed on what price changes might be necessary in real terms, his statement was well received by those contemplating a switch to other fuels or fuel blends.

He said that the price of petroleum fuels from the Marsden Point Oil Refinery would have to reflect the cost of getting fuel to that point and the cost of refining there.

But while this would influence the Government's attitude toward the price of gas – LPG and CNG – he expected these to become "increasingly competitive".

Birch was also able to give the meeting another important assurance – that there would be no punitive tax on fuels used in industry or transport.

"We wouldn't use price manipulation for fiscal purposes," he said.

"I can't envisage any government discouraging the use of indigenous fuels." Birch pointed to the 1979 Budget statement that there would be no tax manipulations used to disadvantage alternative fuels in relation to imported fuels.

However comforting Birch's words might be to fuel users, he has left open the question of just how the Government does see the price relationships between domestic and imported fuels.

As the Government acknowledged in 1976 when devising the original pricing policy, indigenous fuels must have an advantage in order to compensate for the capital investment needed to make any switch.

But just what that relationship should be and how it should be expressed in the marketplace are presumably matters which the Government is now content to let some other body or influence sort out.

Todd's Mann handles Boeing trade

by Warren Barryman

ANNOUNCING its $400 million re-equipment programme last month, Air New Zealand said the purchase of aircraft and engines would open a market in the United States for $80 to $100 million worth of exports – if Government bought General Electric motors and Boeing airframes.

The Government opted for Rolls-Royce engines, and the offset purchase deal has changed radically.

It is not clear if the export side of the package is as accommodating as it was when the announcement was first made.

Air New Zealand chief executive Morrie Davis said the Boeing side of the offset deal was split into two tranches.

The first involved a commitment by Boeing to arrange a market for $5 million worth of our exports.

At least one product has been seriously looked at so far – carpets from UEB Industries and Feltex.

The first tranch is being handled by the Boeing representative in New Zealand and director of Todd Bros. Ltd, Stan Mann.

The second tranch of the Boeing offset, Davis explained, involved a survey of our export capabilities by a Boeing team in June.

"There is an undertaking by Boeing in terms of the contractural arrangements with us to mount the total survey and provide the inhouse facility from the Boeing offset department to generate business of a significant volume", Davis said.

The total value of exports involved in this second tranch had yet to be determined, Davis said.

Once the initial $5 million export tranch had been arranged, Mann would be out of the deal, Davis said. From then on it would be between Boeing, the Trade and Industry Department and Air New Zealand.

The Boeing airframes will be financed by Eximbank. Interest rates were expected to be about 9 per cent.

The offset deal arising from the purchase of the Rolls-Royce engines is still being negotiated, but an answer was expected within a week, Davis said.

Contract work in Air New Zealand shops on the Rolls RE 211 engines was doubtful because Qantas and Cathay Pacific have their own workshops.

There was a possibility of expanding the overhaul facility for the Rolls-Royce Dart in the Pacific Basin, Davis said.

"On top of that Rolls-Royce is supplying us with some Dart engines to power, and any future F27s we require as replacement vehicles for early aeroplanes – about $2 million worth of engines."

Davis said Rolls-Royce was sending a team down to survey the possibility of subcontracting the manufacture of some Rolls-Royce parts and accessories in New Zealand.

As to an offset deal for non-aeronautical exports such as those involved in the Boeing-General Electric deal, Davis said he would like to see wider opportunities for trade emerging from the deal.

The Rolls-Royce engines, worth $118 million (in 1980 dollars), to be delivered up to 1982, will probably be financed through Government loans from British merchant banks at more than 10 per cent interest Government guaranteed.

Guaranteed jobs

THE Labour Party launched its annual conference with the slogan "New Zealand for the New Zealanders". In his keynote speech to the 600 delegates, Opposition Leader Bill Rowling promised to put an end to youth unemployment if his party is elected next year by guaranteeing jobs to school-leavers for the first five years of their working life.

THE survey into the effects of the herbicide Agent Orange on the health of Vietnam war veterans was cancelled amid confusion. Health Minister George Gair, said the survey had to be cancelled because there were not enough responses to the 3500 health questionnaires sent out. Subsequently, Acting Defence Minister David Thomson, issued a statement claiming the survey was based on misinformation as to when spraying began.

BRITAIN is supporting the United States by imposing a trade ban on Iran.

THE National Party caucus told Prime Minister Rob Muldoon it did not want tax increases to be included in the Budget.

WIND generation as a source of power will get an airing when the Ministry of Works and Development installs a 11-kilowatt generator, on trial from West Germany, in the Chatham Islands this year.

WORKERS manufacturing 245-T at the New Plymouth factory of Ivon Watkins-Dow will be subjects of a Health Ministry study.

THE Government approved a further $18 million for work associated with the Clyde power project.

MARINE parks and reserves have been established as high priority by the Fisheries Management Division of the Ministry of Agriculture and Fisheries.

A FARM husbandry course for rural women to be run by the Ministry of Agriculture and Fisheries was cancelled after the Human Rights Commission deemed it unlawful. The commission said it was illegal for an organisation to restrict any person from taking part in training on the grounds of sex, colour, race, ethnic or national origins or religious or ethical beliefs.

ENERGY Minister Bill Birch does not envisage New Zealand going nuclear in the near future. He told the Canterbury branch of the Royal Society about future energy options, and said the two most likely sources of big quantities of liquid fuels would be coal and biomass.

THE Manufacturing Development Council will assume the functions of the Productivity Advisory Council.

DENTISTS will get a 20 per cent increase in fees for treating secondary school pupils and dependent 16 and 17-year-olds, backdated to October 1 last year. The rise – the first since 1978 – will cost an estimated $1.9 million this year.

THE CHINESE Vice-premier Li Xiannian visited New Zealand. He had official talks with the Prime Minister and Government Ministers.

LOTTERY Board revenue for 1979-80 was $13,311,591, an increase of almost $4 million over last year. The board distributed $12,505,000 to various agencies.

JAPAN has bought 140,000 tonnes of Buller coking coal worth between $8 and $9 million. Further sales are likely.

EXPORT sales worth more than $500,000 have been lost by FMC (Meat) NZ Ltd, because, it claims, of the shortage of shipping space to the Middle East.

The business week

ALEX Harvey Industries Ltd reported an unaudited net profit of $16.55 million for the year to March 31 ($13.89 million last year). A final dividend of 8 per cent is payable.

The Bank of New South Wales reported an unaudited tax-paid profit of $A65,793,000 for the six months to March 31 ($A53,722,000 same period last year). An interim ordinary dividend of 8c is payable on June 10.

Borthwicks Ltd and Hawkes Bay Farmers Meat Co Ltd called off a takeover bid for the Gear Meat Co.

Bridgevale Consolidated Ltd reported an unaudited group profit of $72,000 for the year to March 31 ($57,000 last year). A final dividend of 3c is payable.

BNZ Finance Company Ltd elected Laurie H Southwick, QC, to the board.

Murac Holdings Ltd appointed Grant Adams as a director. Marac Group Ltd reported an audited tax-paid profit of $5,003,000 for the year to March 31 ($3,109,000 last year). A final dividend of 10.5 per cent is payable.

National Bank of Australasia Ltd reported an unaudited group net profit of $33,465,000 for the half year to March 31 ($37,589 last year). An interim dividend of 8.5 per cent is payable on June 12.

NZ Forest Products Ltd reported an unaudited tax-paid profit of $29.2 million for the year to March 31. ($22.9 million last year). A final dividend of 10c is payable on September 11.

Oakbridge Ltd appointed N J Thomas as the managing director, metals division. H G Cook was appointed managing director, industrial division, and Peter Collins, managing director of the Swisstex Finance Subsidiary.

Peko-Wallsend Ltd made a cash purchase of all the issued capital of Pittman Data Systems Pty Ltd and Infographic International Pty Ltd.

Suckling Industries Ltd reported an audited tax-paid profit of $477,751 for the year to March 19 ($327,832 last year). A final dividend of 10c is payable on June 13.

UDC Group Holdings Ltd reported an audited tax-paid profit of $2,545,000 for the year to March 31 ($22,422,000 last year).

UEB Industries Ltd reported an unaudited tax-paid profit of $10,050,000 for the year to March 31 ($7,386,119 last year). A final ordinary dividend of 13 per cent is payable on August 15.

Wilson and Horton Ltd reported an unaudited tax-paid profit of $4,597,229 for the year to March 31. ($2,761,711 last year). A final dividend of 12c is payable on July 16.

Wilson Neil Ltd reported a total turnover of $38.4 million for the year to March. ($30.7 million last year).

The week ahead

Tuesday: The Address-in-Reply debate opens in Parliament.
Wednesday: Energy Minister Bill Birch to attend Ministerial meeting of the International Energy Agency (IEA) in Paris. "Occupational health in the 1980s": a talk by Dr John Stoke, of the Health Department, in the board ... Wakefield House, ... ton.
Saturday: Trade and Industry Minister Lance Adams-Schneider to address general meeting of Radio/Television and Electrical Retailers' Association, 2pm, DB Hotel, Rotorua.
Sunday: Prime Minister Muldoon to visit Indo...

Economics indicators

A $185 million balance of payments deficit was ... for the March quarter ... an improvement ... December 1979 quarter ... of $252 million. A surplus ... $13 million was registered ... the March 1979 quarter.

INPUT prices of goods and services (excluding ...) all industries rose by ... cent in the March ... compared with the ... ponding period last ..., dicating that the ... inflationary trend ... ue for some time. Ba... last two December ... input prices rose 2 ...

RESERVE Bank ... receipt for the year ... 31 increased by ... over last year, ... of $200 million.

Exchange rates

As at May 15 1980 $1 worth:

Australia
Britain
Canada
Fiji
Japan
West Germany
United States
Austria
Belgium
China
Denmark
France
Greece
Hong Kong
India
Italy
Malaysia
Netherlands
New Caledonia & Tahiti
Norway
Pakistan
Papua-New Guinea
Portugal
Singapore
South Africa
Spain
Sri Lanka
Sweden
Switzerland
Western Samoa

Government looks to new uses for Maui gas

THE Government is hinting at plans to increase our self sufficiency in liquid fuels – particularly diesel – from Maui gas.

The plans include a new innovation – blending methanol with diesel.

Planning is advancing in two main directions in the short term. The importance of the Marsden Point Oil Refinery is being openly acknowledged and its use will increase once the refinery expansion is completed.

Secondly, the increasing availability of Maui gas will give the Government much greater flexibility on the use of alternative fuels in an uncertain supply situation.

Government plans, in the short-term, centre round a more flexible use of Marsden Point to produce a wider range of petroleum fuels and thereby lessen our dependence on fragile Middle East supply lines.

Currently over half our oil is being bought from just one supplier – Saudi Arabia – a fact which has Energy Minister Bill Birch frankly worried.

"We're sitting on a knife edge", Birch said. "Our dependence on supplies from the Middle East does not give us much flexibility."

The present Marsden Point refinery is geared principally to handle light Arabian crude oil. Birch said this has the effect of "limiting our ability for processing oil from other sources".

He added that "our future and our prospects are tied to the Middle East until we build the new refinery extensions.

"If Saudi Arabia went the way of Iran, the industrial world would be on its knees. That's the sense of urgency basic to the energy portfolio at the moment. The slightest hiccup in supplies would put us (New Zealand) in the greatest difficulty."

Birch conceded that oil supplies at the moment were "relatively good".

Petrol supplies would bottom out at 15 days supply on May 25, and increase afterward as a result of Marsden Point's re-opening after its annual maintenance shutdown.

For the all-important diesel supply situation, Birch said the total availability was 78 days. That includes port stocks, crude available for processing at the refinery and shipments on the way. The comparable figure for petrol supplies, Birch said, was 76 days.

Compared to the 15 days supply of petrol at their lowest point, diesel stocks were sufficient for 33 days at their lowest point (late June).

The Government has already got installed virtually two-thirds of its planned strategic reserve of diesel. Of the 60,000 tonnes planned to go into the Marsden B Power Station tanks, 40,000 tonnes are either there or in transshipment.

Ultimately that's a diesel reserve amounting to 6 per cent of current usage (16 days supply) and worth $20 million at current prices. It is also twice the reserve originally set up when fuel restraint measures were first introduced.

But Birch has other developments in mind – based on the refinery expansion and the use of Maui gas.

"The more versatile hydrocracker to be installed in the expanded refinery will enable a wider variety of crude (oil) to be handled; more of the crude product will be able to be turned into diesel".

Birch expects work on the refinery to get underway this year, and negotiations with various unions have started in order to achieve this.

The Mobil syngas plant will also lighten the load on Marsden Point as far as refining petrol is concerned, and Birch indicated that would allow the refinery relatively more time to produce diesel.

More importantly Birch said the flow of gas from the Maui field is to be stepped up.

"More condensate is to be taken out which will eventually become diesel through the production process."

The most important factor in achieving this is the construction of the country's first methanol plant.

The Government is looking at eventual methanol production of 400,000 tonnes per year.

"The increased flow of Maui gas, which will also produce an increased flow of condensate, means we can expect 150,000 tonnes plus of diesel per year from Maui."

Methanol can be used as a blend with diesel according to Birch. While the Government has made no commitment on blending methanol with petrol, Birch is suggesting a definite interest in diesel blends.

"One can't be completely definite about methanol's future: but scientific tests show a blend of up to 30 per cent methanol with diesel can work."

At an annual usage of a million tonnes a year, and a diesel spot market price of $47 a barrel, the savings on the annual fuel bill have to be attractive for the Government.

"Whether the blend is viable depends on economic and technical factors; its really a bit early to say ... but my feeling, quite frankly, is that we will see methanol used at an increasing rate," he said.

Looking to ethanol, Birch pointed to the example of Brazil where crops are grown specifically to make alchol fuels.

"They had the fuel, then they made the vehicles to use it," he said.

Birch promised that he would be "pushing very hard" for the use of methanol as a substitute for diesel. The other part of the equation was a sound distribution system which delivered the fuel safely and efficiently to various parts of the country.

Birch maintained that as dependence on Marsden Point by the ordinary motorist lessened with the increasing availability of alternative fuels, then the increased capacity of the refinery would more easily cope with the supplies required by the transport and industrial sectors.

The week

Govt loosening knots on rope industry

GOVERNMENT decisions on the Industries Development Commission inquiry into the twine and cordage industry are imminent.

An announcement is expected to follow the Cabinet Economic Committee meeting this week or next.

Existing levels of protection in line with the Government's current attitude, already demonstrated in relation to its treatment of the textiles industry.

This would please local fishermen, who complain that licensing controls prevent the industry generally from being able to evaluate the different qualities of overseas-produced ropes. Many too, have complained about the high cost of the locally-made products.

It is likely that the manufacturing industry — which produces some 4000 tonnes a year but is almost wholly dependent on imported materials — will be encouraged to reduce the number of lines produced.

Before the public hearings, the IDC — emphasising these were tentative views only — noted the New Zealand industry manufactured well over 1000 different types and diameters of twine, cordage and heavy-duty ropes.

A reduction in that number would permit greater specialisation, the commission suggested.

Of four local manufacturers, Donaghys Industries and Feltex New Zealand are the largest. Donaghys supplies some 85 per cent of the market.

Donaghys says its own market research indicates a high level of acceptance for its products, and says it cannot compete with the overseas products when its raw materials are priced to it at the same cost as the overseas-produced product.

Donaghys' managing director Nat Craig suggested that if the overseas' product were allowed to flood the local market, local manufacture would be "dessimated".

If the local manufacturers were forced to close, "one could assume (the overseas producers) would adopt a different pricing philosophy," Craig said.

In its preliminary discussion paper, the IDC said a wide range of machinery was required for the major manufacturing processes here, and while plant utilisation varied, a general figure would be around 50 per cent.

On raw materials, the commission said that because of almost total reliance on imports, imported content would run to around 60 per cent of the factory selling price.

The industry has been highly protected from import competition — except for the highly specialised mountain climbing rope.

Past representations to the Government by cray-fishermen led to import licences being granted for the Korean-made Manho product, which a DSIR test carried out last year showed to be stronger than the local equivalent, Donlene.

But the makers of Donlene, Donaghys, said it had since produced a rope of the same quality as the Manho, and further imports of that would "jeopardise this initiative".

In its submissions to the IDC, Donaghys requested the maintenance of existing protection on ropes of both natural and synthetic materials, the abolition of developing country preferences on cordage and twines and a recognition of the financial linkage between the company's cordage operations and its seafood manufacture.

Feltex similarly asked for protection against "low cost producers" and "clarification" by the Government of the relationship of the local cordage manufacturing industry with the commercial fishing industry.

Submissions from the fishing industry indicated some dissatisfaction in terms of both quality and price, while Federated Farmers — on the subject of baling twine — said it was generally satisfied.

But the farmers did request that protection should be revised downwards.

Before the hearing, the IDC concluded — though tentatively — that the industry in general should be encouraged since groups indicated they were generally satisfied with the local products, aside from the Donlene as an alternative to the Manho.

Death of a documentary in "national interest"

TELEVISION New Zealand is unlikely to invite Saudi Arabian wrath and screen the controversial documentary "Death of a Princess".

The Saudis have not officially requested that the film not be shown, as they did in Britain, the United States and Holland. But New Zealand's "national interest" — a dependence on Saudi Arabian oil and to a lesser extent "Middle East" petro dollars — is certain to be taken into account by the Broadcasting Corporation.

Programme controller Des Monaghan returned late last week after viewing "Death of a Princess" overseas and will make his recommendation to Director-General Allan Morris.

So far Saudi Arabian anger has been directed only at Britain, whose Independent Television network screened the documentary made by Antony Thomas last month.

Dutch and American viewers have also seen the film depicting the events leading up to the public execution of Princess Misha and her lover for adultery in 1977.

New Zealand's involvement in the film dates back to the Cannes film festival of 1978 when representatives of Television One offered to help finance the production.

Television New Zealand executives claim the payment was no more than the usual screening fee, including repeats, of $3000 to ensure Television One beat South Pacific Television to the local rights.

Film-maker Thomas told Radio New Zealand's Morning Report last week that he understood the amount paid was £5000, (about $11,500), sufficient for Television New Zealand to get mentioned on the list of credits.

Acting programme controller Chris Bourn told *NBR* there was no trace of any such payment in the accounts and $3000 was the amount paid to Britain's Associated Television Corporation, a sum that would be credited to Television New Zealand if the film was not screened.

Slightly more than half our oil now comes from Saudi Arabia and it is a growing market for our exports.

In the last six months of 1979 exports totalled $13.223 million — mainly meat and floor coverings plus much smaller amounts of timber, paper, fish, vegetables, milk and cream.

But despite describing the film as a "slanderous attack" on Islam, Saudi Arabia and other Persian Gulf States equally incensed by its screening have yet to take trade sanctions against Holland or the United States. And there are doubts that Saudi contracts worth more than $2 billion with Britain will be cancelled as originally stated.

Light ales lose out on local market

LION Breweries' low alcohol light ale has missed out in the local marketplace. And Lion marketing people are trying to find out why.

Introduced last December, the beer (which sells for the same price as ordinary beer but contains 25 per cent less alcohol) was seen as a social measure to curb alcohol abuse.

Drinkers have dubbed the stuff learners' ale.

Lion tested the beer by putting it on tap in a Wellington trust pub. The pub sold only eight litres in one week. When the publican switched the pipes around so the light ale came out of the Bavarian tap boozers lapped the stuff up. Which all goes to prove, said the Lion source, that the taste was up to scratch.

Other pubs want the draft taps for the new light ale removed because it does not sell.

Lion sources are baffled as to why low alcohol beers sold so well in the hard drinking Australia but not here.

One explanation tendered was that ordinary Australian beer was stronger than our brews.

Particularly disappointing to Lion was to find that the less alcohol beer sold be [illegible] upon idle drinkers and least to the louts and drunken drivers whose excesses a low alcohol beer was designed to curb.

Comment

Editorial

FEW will lament the passing, at least temporarily, of the iniquitous carless days scheme — a conservation measure that was generally disliked, increasingly disregarded, apparently ineffectual, and maybe unlawful (a matter to be determined by the judiciary).

Even when the scheme was introduced, Government energy officials had scant idea of how much petrol carless days would save — but acknowledged it would not be much.

The scheme's introduction meant that, for the first time since the start of motoring, the Government banned New Zealanders from using their cars. But only some New Zealanders. Almost 20 per cent of the country's 1,330,000 registered vehicles had exemption stickers, and many who couldn't secure this privilege ignored the law, anyway.

The validity of the carless days regulations was upheld recently by a judge in Masterton District Court in a test case. That decision is being appealed, among other reasons on the grounds that carless days were introduced under the Economic Stabilisation Regulations, not the International Agency Act.

The carless days scheme took effect from July 30 last year. At that time, the supply problem which the Government advanced to justify the scheme was obvious.

The revolution in Iran late in 1978 had disrupted the world's oil supplies and by about February last year, it was plain something had to be done. Some 5 million barrels a day of oil had been eliminated from the world's oil flow.

In March 1979, member countries of the International Energy Agency each agreed to attempt to reduce consumption by 5 per cent. New Zealand has come close to hitting that target, but few others have achieved it — and most have failed by big margins.

A plea for voluntary saving was the first step in this country, weekend petrol sales restrictions the next, and carless days followed. But by Christmas, when a seemingly beneficent Government suspended the carless days scheme to allow people to take their annual holidays, the problem was not fundamentally one of supply, but one of cost, with serious consequences for our balance of payments and inflation. Through a series of *ad hoc* moves, the Opec countries were lifting their prices and buyers were anxiously trying to secure supplies from whoever would sell. By January, the supply problem was healthy — *for those who could afford to pay* (and even New Zealand has been securing some oil on the spot market).

Despite the suspension of carless days, conservation remains a Government objective. Conservation measures announced last week included an anti-speeding campaign, fund allocations to encourage car pooling and encouragement of exhaust emission testing. But the oil industry has maintained that only pricing will work effectively in reducing consumption, and last week's decisions suggest that Ministers and officials have finally embraced this viewpoint. Thus on top of everything else, the price of petrol was hiked from $2.18 to $2.36 a gallon (an increase that will generate an extra $88 million to pay the oil companies).

But if the Government has adopted a philosophy of conservation by pricing, presumably it is re-evaluating the whole of the petrol-pricing system. Past price increases have soon been accommodated by motorists, and after an initial period of concern about a higher price level, people readily seem to be able to find the money to maintain the motoring habit. Much heavier price rises therefore seem inevitable. This implies that what little remains of the world's oil will be enjoyed — at least, in this country — by those who can afford it. But politicians will be anxious to minimise any impressions of unfairness. Thus if price is to be used to discourage consumption, the Government will be tempted to consider the role of the company car. It is aware that fuel costs are written off for tax purposes by businessmen, who have no incentive to reduce consumption, and that private motorists have been responsible for the bulk of petrol savings, while commercial vehicles may be burning as much fuel as ever.

The first step to even bigger petrol prices is bound to come in this year's Budget, when we can expect the price of petrol to go to about $2.70 a gallon largely as a tax move (but with some of the increase going to recover costs for service stations and so on).

If imported fuels are to be priced to prohibitive levels, there might be few quarrels if alternative fuels were available. But despite all the evidence that pointed to a need to exploit our own natural gas resources, LPG and CNG supplies are in scandalous disarray. Two years have passed since conversion to CNG was given any substantive (and belated) encouragement by the state, and still the question of safety and standards for pressure vessels is being thrashed out. The Government expects only 5000 conversions to CNG by the end of the year, and to have only 24 public refuelling stations open. No doubt LPG and CNG supplies — and supply infrastructure — will improve. Whether that improvement is equal to the price-enforced weaning from petrol is both highly doubtful and a matter for grave disquiet about the Government's fuel strategy.

There is every reason to reduce oil imports. Import costs have galloped from $900 million annually early in 1979 to an annual cost today of $1200 million. But if the justification for carless days became economic, rather than one of supply, the Government was curiously reluctant to spell it out. "Because of the fragile international oil supply position, carless days will remain necessary for as far ahead as one can see," Energy Minister Bill Birch said in January when Opposition MPs began to campaign for the abolition of the scheme on the grounds it was introduced because of a supply crisis which no longer existed. As recently as May 2, he said carless days had been regarded as an "emergency measure" but would not be changed until the Government was satisfied there were sufficient fuel stocks within New Zealand and the country's supplies from the Middle East were sufficiently secure. "We certainly haven't reached that stage yet," he said.

A Radio New Zealand reporter [illegible] weeks ago that once the maintenance work at Marsden refinery was completed, our supplies would allow the Government to lift the carless days scheme about May 16. Birch promptly denied it. In the upshot, Radio New Zealand come to within 3½ days of being spot on (it seems to have miscalculated only that the maintenance work would be finished ahead of schedule).

If the Government had been more candid in the third and fourth quarters last year, admitting the supply problem was easing and urging the need to curb consumption to help keep down import costs, carless days might have continued to enjoy popular support. But oil industry officials, for example, were saying supplies were ample. And the public isn't as naive as the Government apparently thinks. There are many unsatisfactory aspects about the carless days scheme, but probably its greatest weakness — and one that reflects ill on the Government's credibility — was its continued invocation in the name of supply.

Without word of a lie

Pin-pricking regulation

WHEN Government servants poke their noses into the most private aspects of our daily lives, it's comforting to take solace from the fact that some foreign governments might be worse than our own.

A recent issue of the *Canadian Lawyer* carried an outraged howl from a true anarcho-conservative, Gary Quellet, of Quebec.

What set Quellet off was Canadian legislation regulating the size, shape, and testing procedures for the Canadian condom. This intrusion into the Canadian's bedroom was too much.

According to Quellet's article, the regulations require that condoms must be at least 16 cm long, not less than 4.5 cm wide and have a bursting volume of not less than one kilopascal.

The testing procedure — outlined in full scientific detail — involves filling the condom with 25 litres of water, drying it, then rolling it over a dry blotter to see if there are any leaks.

Quellet observed that we have come a long way from the 10 laws on two tablets of stone and submitted that the matter should have been left to the invisible hand.

GE silent on engine deal

A COMPANY which loses a $200 million contract, like General Electric did to Rolls-Royce on the Air New Zealand re-equipment deal, might be thought ready to shout about its product's advantages.

But General Electric Australia, which handled much of the negotiating, isn't talking about the advantages of the GE engines or the details of the offset purchase deal offered. All statements have to come from Air New Zealand, we were told.

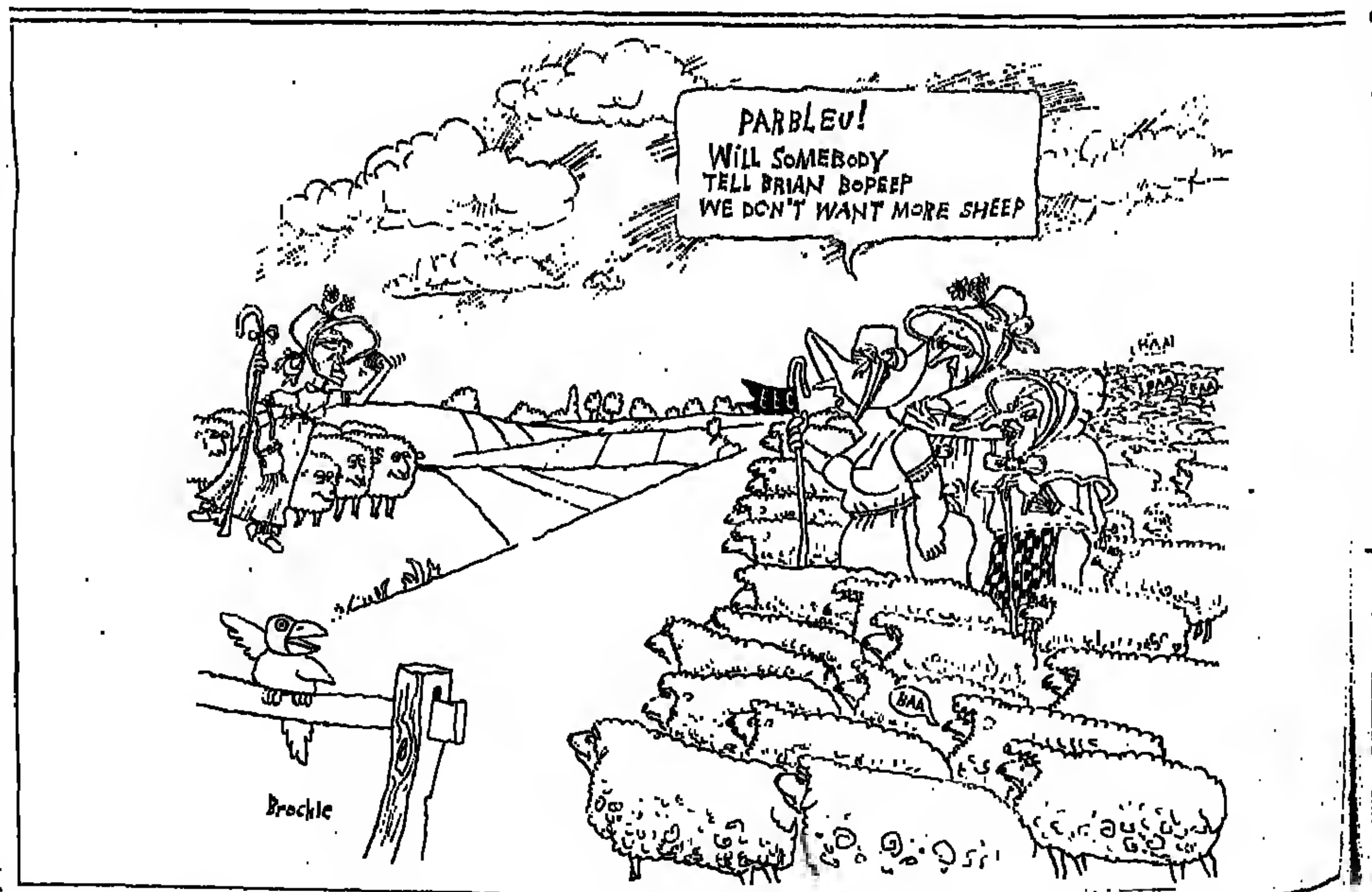
According to Tom Bergman, of GE Australia, the deal with Air New Zealand was handled by the company's offices in Sydney and Cincinatti Ohio; not by GE's New Zealand agents for housewire appliances, Heatway Industries.

Till recently, the chairman of Heatways was Fred Dobbs, whose ad agency, Dobbs Wiggans McCann Erickson, has the Air New Zealand account.

Dobbs is in for a slice of the action from Air New Zealand's re-equipment programme if the Redifon flight simulators are chosen. He and "Digger" Harding have the Redifon agency here.

After getting the green light from Air New Zealand on the engines, GE got the thumbs down from Rob Muldoon who passed the deal to Rolls-Royce. Just why this choice was made is being kept a guarded secret from Air New Zealand's ostensible owners, the taxpaying public.

Brockie's view



Hot line to Manãna land

THE Beehive is not the buzzing communications centre that the name implies. In fact some of the little workers turn to drones when the telex lines heat up.

In its lobbying efforts against the 40 per cent sales tax on records, the Record Retailers Federation the other day wanted to send 24 telexes to cabinet ministers and selected members of caucus.

But the hot line to the heart of the country was not open.

Inquiries at the Chief Post Office in Wellington elicited the following explanation: Parliament Buildings switches off its machines now and then so the operators can have a rest.

Wellington CPO phoned Parliament asking them to switch its machines back on. Then the telexes went through.

But what would have happened had the telexes contained diplomatic or trade inquiries from foreign governments or overseas investors? Would they get the impression they were communicating with someone taking a siesta under sombreros in *Manãna* down under?

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Comment

Billion dollar bonanza inspires forestry optimism

by Venn Young

THEY say there is nothing like an idea whose time has arrived, and the time of forestry has arrived in this country.

You might think I am 40 years behind the play.

On closer reflection, I suggest that, as a nation, we have regarded forestry and the potential for economic growth from forest industries with a good degree of indifference.

Quite properly, our attention for new jobs and new incomes has been directed to agriculture and manufacturing.

I say properly only because the trees have continued growing and new plantations have continued to be established.

A quarter of New Zealand's pine forests have been planted in the last five years.

Sixty per cent of our forests are not yet 10-years-old.

I believe the time has arrived when forest industries will make a substantial and long-term impact on the New Zealand economy.

Developments in the last 12 months have shown quite clearly that New Zealand's forest resources, especially its large exotic soft wood plantations, will pass the billion-dollar export market (at current prices) by the turn of the century.

The potential after that date is anybody's guess and will be determined by this decade's decisions.

Although there are many variables which can change in the space of 25 years, I think that in the years after 2000 people will be talking about export earnings of many billions of dollars.

What has brought about this remarkable optimism? It is difficult to pinpoint any one event.

- New Zealand has intensively managed exotic radiata pine plantations totalling 800,000 ha, which is increasing by 40-45,000 ha a year.
- Receipts from forestry exports have increased 400 per cent in the space of six years.
- From $86 million in the year ended June 1974, they rose to $226 million in the year ended June 1979, and to a whopping $381 million for the year ended December 1979.

The latest projections on the quantities of exotic softwood available by the year 2015 show a quadrupling on the volume currently produced from all sources.

In annual wood production, this is an increase from about 9.5 million cubic metres a year at present to more than 36 million cubic metres a year in 2015 and in exports of wood products 4.5 million cubic metres to 30 million cubic metres.

These figures mean that the volume for exports will increase seven-fold.

Even in the space of 15 years up to 1995 we can expect an increase of about 50 per cent to an annual output of 13.4 million cubic metres, then to 25 million cubic metres by 2000.

When we consider these figures in the context of a stabilised domestic demand and an expected world-wide shortage of good quality exotic soft woods, one can see we are well placed to become a more substantial supplier of forest products.

New Zealand currently supplies only about 1 per cent of the world market for forest products.

Our biggest customer is Australia followed by Korea and Japan, although significant sales are now being made to China.

There is one further point — to me, a most important one — which gives rise to my optimism. That is the unparalleled interest that has been shown in the last 12 months by New Zealand and overseas companies in forest industries.

Of the publicly announced proposals we are already talking of some hundreds of millions of dollars of capital investment.

This follows expansion and new plants in the last five years at Kinleith, Tasman, Karioi and Taupo.

In recent months we have heard of the CSR-Baigent proposal in Nelson costing $60 million, the plant expansion of the Carter Oji Whirinaki mill near Napier costing $25 million, the New Zealand Forest Products proposal in Marsden Point at $150 million, as well as a possible pulp mill involving Indian interests in Otago.

It is no accident that many overseas companies have expressed interest in participating in joint forestry ventures in New Zealand.

New Zealand companies with substantial interest in forestry now include New Zealand Forest Products, Challenge, Odlins, Carter Holt, Fletchers, Winstones and BP.

We have the resources to be able to meet a significant part of the world demand for soft wood forest products.

What gives me the greatest optimism is that we now have the interest, the incentive and most importantly the will to capitalise upon those resources.

Our greatest advantage over other producers is our high growth rate for trees. This is best expressed in terms of cubic metres produced a hectare every year.

Canada has an average annual growth rate of 2-4 cubic metres a hectare and Scandinavia only 2.1.

New Zealand towers above them with an annual average of 22 cubic metres a hectare and this is on land which is, in the main, unsuitable for agriculture.

In other words, we are able to produce about 10 times the volume from the same area every year as our competitors can.

We have other considerable competitive advantages such as the high quality and adaptability of radiata pine; a strong research base in both growing and processing radiata pine; abundant energy resources; experience in producing a wide range of forest products; a well-educated and adaptable workforce and a well developed industry infra-structure.

Naturally there will be challenges and obstacles to be overcome in order to best capitalise on these resources and for the benefit of New Zealand's economy. But, the area in which New Zealand has been slow to develop has been in marketing.

In recent years the New Zealand business sector has started to acquire the wider marketing skills necessary to compete on world markets.

The forestry sector has made some advances in marketing and the opening up of new markets. For instance, a recent sale of several hundred thousands dollars worth of sawlogs was negotiated with Sudan and new long-term sales to Japan and China have been announced in the last two months worth $18 million.

But if we are optimistic of reaping a billion-dollar bonanza overseas I think we should be no less optimistic of the very substantial benefits which will accrue to the New Zealand domestic economy, particularly in the regions.

Forestry and forest-related industries currently employ some 45,000 people in this country.

The DFC forest industry study published in March suggests that for each million cubic metres of increased wood volume produced each year an extra 2500 jobs could be created, both directly and indirectly. This means a probable 8000 people, workers and dependents, would benefit.

In the initial stages the jobs would be created in the tending and pruning areas, and as the forest matured the tendency would be toward processing.

Because of the distribution of forests throughout the country, usually in isolated rural areas, this must inevitably mean a shot in the arm for regions which have had little to offer in the way of employment, apart from farming.

Already an indication of the sort of employment opportunities that will be created from this development in the forestry sector is the prediction that the New Zealand Forest Products mill at Marsden Point will create some 300 jobs, and indeed, with Northland being one of the expected major forestry areas of the future, this might mean up to a thousand more jobs in the years to come.

The BP-Fletcher forestry projects on the east coast the CSR-Baigent's pulp mill in Nelson, the Carter-Oji expansion near Napier and the Odlins mill in Balclutha could, among them, account for an extra 1500 jobs in areas needing further employment opportunities.

And if one needs tangible proof of the impact that forestry industries can have on a region, ponder the fate of Pareora and Bennydale after the closure of their sawmills, and conversely the fact that Tokoroa, with 19,000 people, and Kawerau, with 8000, owe virtually everything to the humble pine tree.

The crucial factor in all of this is the obtaining of the necessary capital investment that will be needed to process these increased volumes.

When talking of new or modernised sawmills, thermo-mechanical pulp mills, particle board factories and timber treatment plants, we are talking of many hundreds of millions of dollars of capital investment. We are talking of thousands of new jobs.

One section of the environment movement is opposed to exotic forestry. It has embarked on a programme to discredit the pine forest. Its successes, I believe, can only become the country's losses.

Given developments over the last 12 months I believe that investment is there and indeed a good deal of it might well be attracted from overseas concerns by way of joint-venture companies.

Of course, the problem is not just one of attracting investment. No amount of modern processing facilities will make export earnings if we do not have the skilled labour, the modern port facilities and the necessary communications infra-structure to deal with the end product.

In many ways that is the greater challenge — a challenge not just to grow trees in large volumes but to have the initiative and inventiveness required to produce and market.

Given the current indications I am in no doubt that New Zealand has these qualities and will bring them to bear in making the most of this vital national resources.

Minister of Forests Venn Young gave this address the other day to the *Tawa Jaycees*

Letters

Chambers knock Knox

IN the report of the presidential address by Jim Knox to the Federntion of Labour Cnnference by Colin James. (*NBR*, May 12). Mr Knox has some forceful things to say about what he helieves to he the attuchment of the National Party to the concept of "free enterprise".

Members of that political party will say whether his views correctly reflect their philosophies.

As Mr Knox linked the business community into his comments I helieve that a few things need to he said to keep the record factual insofar as business and the enterprise economy is concerned.

The fact that Mr Knox says this or thut does not make it so. What is more interesting is that he is conscious of the increasing public demand for economic freedom.

The business world of the private economy does not advocate the unbridled free enterprise which is implied in Mr Knox's words. Business functions most effectively only in an atmosphere of minimum interference by Government and amongst competitive market forces. There is nothing new in that. Business built New Zealand under those conditions and has consistently argued for them long before politicians became attracted by the concept.

What is at stake if you accept all that the writer of Mr Knox's address says, is too important to overlook. He is playing around with freedom's future and the rights of individuals.

There can be no freedom without economic freedom. In supporting that simple premise, the Chambers of Commerce links with it private ownership, private profit, labour unions, collective bargaining, consumer choice and a market economy which largely determines what is provided to the consumer. We would place consumer democracy ahead of industrial democracy because they come in that order in a free society.

And the man-in-the-street understands that. Professional surveys demonstrate an increasing understanding that successful business is not excessively rewarded today, that personal rewards and social security spring from prosperous enterprises and, importantly, that future employment will come from companies able to generate and to retain sufficient profit to invest in growth.

The message that that man has for Mr Knox is "set the people free". Let them exercise their enterprise and be rewarded for it.

It is distressing to find that Mr Knox retains the age-old shibboleths of "workers" and "the working class", deliberately dividing the country in the face of the greatest economic difficulties it has ever faced; deliberately alienating the workforce when business enterprises are taking more positive steps than ever before to create employee involvement and a sharing relationship; deliberately reaching back into the darkness of the industrial revolution to deplore technological advances which lifted the poor out of their poverty and gave hope and opportunity to those who sought it.

In this day and age our struggle is not, as Mr Knox would have it, with governments. It is with ourselves. We have a crisis of morality. We all want a welfare state which we can afford. Much of the inflation which we must fight as a united nation, springs from the unbridled demands for higher incomes and social welfare and the political unpracticality of resisting those demands.

Today we need some thinking by Government and whether it is totally efficient and productive.

Today we need some thinking by government and its advisers as to how long we will last when Government takes over 40 cents of every dollar we earn and looks set to throttle business with regulatory controls.

Today we must ask ourselves why there has been no effective investment by business for six years in productive assets. we must ask ourselves why and we must ask what this means to employment and future growth.

No amount of economic theorising will cure that. The only cure will come from the removal of uncertainty in the market place and from enterprise seeking an outlet and a reward.

What his advisers have not told Mr Knox is that the ordinary bloke knows all this. It shows in the surveys. He not only wants job security. He wants to buy the corner store and have a go with a chance to become a capitalist in return for taking a chance.

Such people dominate the business scene. Numerically, 90 per cent of business employs 50 or fewer people. The industrial giants cannot do without them. Those who stop to think, know that business is regenerated from the bottom by the feeding in of the new small businesses by the entrepreneur. The ones that the customers want, succeed. New Zealand's history is studded with case studies of individuals who founded an enterprise under competition and which often grew into a large, New Zealand-originated international.

More importantly, the solution to unemployment will come at the hands of those small businesses if they can operate in conditions of growth. They will take on another person while the giants must meet inflation with staff-shedding.

But the smaller business will not succeed if the shots are called by a few bureaucrats trying to make the millions of decisions which can only be rightly made in response to the inter-play of market forces. They also have little hope if some remote person withdraws their labour force or dictates their work conditions.

That way lies the loss of consumer democracy which must always precede industrial democracy. That way lies the loss of individual freedom.

Business has always worked in an atmosphere of change. Today it seeks to work with government and the community to evolve a new sharing partnership which secures individual freedom, gives initiative and enterprise its opportunity so that prosperous business can finance the degree of social security we can afford and so that a united country can advance in a competitive world which does not hand out free meals.

Mr Knox is reported to have said that one of the great lessons of history is that humanity tends to repeat its mistakes. Not always. It is those who fail to read history that are often forced to re-live it. And history says that New Zealand was built by free men operating in a competitive environment and asking only for the rewards of a market place which wanted their goods and services. History has many tragic examples of excessive controls over man's individual initiative and interference with his fundamental freedom.

That is what the enterprise economy is about — individual freedom of choice, not dictation from a self-appointed elite.

Alan R Simm
Executive Vice-president
New Zealand Chambers of Commerce

Mr J. L. FULTON, B.E., M.N.Z.I.E., M.I.C.E., previously General Manager Group Operations, has been appointed Managing Director of the Fulton Hogan Holdings Group. He succeeds Mr E.N. Lundquist who held this position for 12 years and has been appointed Director Marketing and Development. Mr W.G. Auld, A.C.A., formerly General Manager Finance and Group Secretary, becomes Director Finance.

Competitive exports

AN article (*NBR* April 21) under the heading "Exporting Our Culture", stated that an Auckland University rugby team lost its jerseys in Los Angeles and bought "Canterbury" rugby jerseys at a cost of $8.00 each, whereas the same jerseys had cost the team $23.00 in New Zealand.

The Auckland University side lost all its new gear on its arrival in Los Angeles for a tour of California and Canada and rang our warehouse in San Francisco with its plight and asked if we could assist. In return for the team promoting our rugby gear and because of its desperate situation, we agreed to sell them the jerseys at a nominal sum.

The normal retail price for the jerseys purchased in the United States is $32.00, compared with $18.50 in New Zealand.

Your article states, that export incentives make our goods competitive in California. However, in none of our 26 export markets is the into store price for our jerseys cheaper than they are in New Zealand.

It is upsetting that the person responsible for the article did not check the position with us, or the team manager (Mike Cormack — the former Auckland player) before publishing, because it gives an incorrect guide to our true United States prices.

D R Phillipson
Rugby manager
Lane Walker Rudkin Ltd

TEAM manager Mike Cormack confirms that the team had its jerseys stolen and Lane Walker Rudkin in San Francisco supplied 21 jerseys at only $8 each. This, Cormack said, was a special sponsored price, far lower than marked price. "We readily acknowledge Lane Walker Rudkin's sponsorship," he said. — Ed.

Socred not for the system

IN your May *Outlook* Colin James looks back to the 19[illegible] General Election in which he says "the vote for Social Credit was a vote for the system, not against it".

If by "the system" is meant bureaucratic manipulation from the top, surely Social Credit was then — and is now — very much against it.

British Columbia has changed a system similar to one of "fiscal responsibility directly opposite to that being followed in New Zealand" (*Dominion*, May [illegible]).

It seems that there, as here, Social Credit is certainly not "for the system", but against it.

W Roy [illegible]
Walker

Politics

A tale of saints, sinners and big red apples

by Collns James

A DIXIE band played "When the Saints Came Marching In" as it led Bill Rowling into the Wellington town hall on leader's night at the Labour Party conference last week.

And the faithful roared and cheered approval when Bill promised them that the sinners would be turned out of Government in 1981.

The band wore new "Beat the Blues" teeshirts. Above the stage the Labour "L" logo had been facelifted, two of the corners having been rounded off, presumably for a smooth flight through the air turbulence of the eighties.

Higher still, a bank of back projection screens showed slides of the changing New Zealand, dimly under the glare of the television lights.

At least the razzamatazz is getting a bit more inventive. Perhaps if they go on this way both parties will eventually make their men at the top over into images of leadership.

That way it is easier to believe them, to achieve that willing suspension of disbelief that keeps you knocking on doors of a rainy winter Saturday morning.

So, for a time, the Labour troops believed their Bill was a saint chasing sinners. They fed warm emotional goodwill to the man who is, whether they like it or not, the only leader they have got: who is, of the people available in any real sense, the man with the best overall qualification to be leader.

But nothing ever goes right for Rowling. In their enthusiasm, delegates started clapping in time to the music as he made his way up to the stage. "Saints" has a slow beat: it came out as a slow handclap.

If you want symbolism, it seems to me it lay there.

There is a warmth for Rowling in the party. Perhaps it is partly human sympathy for the permanent underdog, the small figure up there under the lights straining to be the messiah he cannot be.

So for 10 minutes or quarter of an hour of rollicking, punchy stuff — the best I've heard from him since that unreal month of November, 1978 — they gave him noisy good humour.

But then it gradually wore off as he got into the by-now sanctimonious litany of human misery that substitutes for hard policy on occasions like these (though there was some policy — five years guaranteed work for school leavers, for instance, a sort of baby bonus five years on).

The party psyches itself into a leader response to Rowling. For president Jim Anderton, whose shadow now lies long over the party, the response is immediate and direct. Even Federation of Labour president, Jim Knox, got them going more easily.

The party is still wistfully looking back to the magnificence of the Kirk era — the man they hated, loved, admired, ran down, but in the end dedicated themselves to.

Without the colossus, a party must look to other means, more solid and lasting in the long run, but not so spectacular.

So the delegates were delighted when Knox told them that he would tell his trades councils and affiliated unions to get out there and organise, find money, make speeches and "work as they have never worked before" — alongside Jim — for a Labour Government.

Just a flight of Jim's fancy?

Perhaps not. The minority of unions who are affiliated to the party have been taking a back seat in finance and campaigning to the point where — in an organisational sense — the party wouldn't miss them if they went.

Jim Anderton . . . it's his party now.

But over the past three years, at least in the conference context, they have been re-emerging. This year they decided to set up a formal structure, a steering committee (leading, perhaps to a permanent party trade union council), to influence policy, get their people on to the executive and election candidates in safe seats.

This new structure was partly a tradeoff for Mount Albert candidate and top-polling executive member Helen Clarke calling off her duel with Workers Union secretary Dan Duggan for junior vice-president.

Clark is in the progressive wing of the party and Duggan in the conservative wing, so her candidacy (which her supporters were confident would have been successful) was more than just a quest for a woman at the top.

The *quid pro quo* for the withdrawal was an assurance from those providing the impetus for the steering committee that its makeup was likely to be progressive. The alternative in the event of a Clark victory would have been a number of unions taking a back seat.

The alternative was a price the party could not pay. The leadership has assiduously cultivated leading union figures through regular meetings of the once laughable Joint Council of Labour, support for the national stoppage last year and the Kinleith strike this and commitment to such union objectives — spelt out with admirable clarity by Knox — as a redistribution of income and wealth, the minimum living income and "New Zealand for the New Zealanders".

At a meeting with union heavies a month ago, the leadership got the breakthrough it wanted in the standoff. Hair flew and scepticism gave way to interest.

For their part, the middle ground unions in the party stand to gain political coherence against the rising influence of the Socialist Unity Party in the FOL.

These unions argued powerfully to the conference that industrial ends could be adequately pursued only within a radically changed legislative framework — and that could only be delivered by a Labour Government that was being influenced from within well in advance.

Unions were not the only group to be more assertive at this conference.

The normally deferential Polynesians told the party to be more sensitive to their races.

And the Maoris, holding a strong whip hand since Mat Rata's departure, forced their liberal white compatriots to look hard at the "time bomb" that Bob Tinu from Napier said had been ticking away under them. Bruce Gregory, the by-election candidate, was duly lionised in return.

On the other side of the coin, both the Maoris and unions are learning a hard truth the women — a potent force at this conference — have learnt long before them: that to get their people in as candidates in general seats, it is no use bleating.

The system now demands numbers of the ground in the branches (which women now have) and sustained work at a local level.

And it demands merit. Tokenism is not on. The head office can no longer deliver since the party got more democratic and more demanding in the quality of its candidates.

But the second, and in the long term perhaps more lasting, message of this conference is the more mature way it has looked at its constituent groups.

Usually it energetically papers over cracks. This year it took the paper off, looked at the ravines that gouge the party landscape and started coming to terms with the differences.

This will not bring about some homogenised mixture. On the contrary, the lumps will be a lot more lumpily obvious.

Deputy leader David Lange fears a hotchpotch party of single-issue pressure groups, a sort of umbrella for factionalism.

Avoiding that will require superb political management that so far is not evident in the party hierarchy.

But at least there is a sense of realism.

At one level, here and there in the conference there were delegates demanding the abandonment of old shibboleths of blind protectionism and a more efficient concentration of economic resources.

They were not in the majority — "welcoming" the microprocessor and turning it to the benefit of Labour's social objectives was a bit strong for the conference — but they are growing in numbers.

At another level, Anderton made the conference face the fact than they are behind in the polls and that winning 1981 needs serious hard work, not coasting.

This conference was buoyant and confident, perhaps more than any since 1972, but those qualities were founded on a serious solidity rather than casual expectation of power.

And rightly so. Electorally the party is under attack from the right — the Prime Minister and Social Credit.

Industrially (and electorally?) it is under attack from assorted left groups, including the SUP — in a rare lapse of presidential judgment Anderton bowed to pressure to have political albatross Ken Douglas to the next conference.

1981 is still a long way off.

To take my mind off such weight considerations, the Wairarapa delegation, whose capitalistic opportunism of 1978 in selling fruit at the conference to boost branch funds I mentioned here at the time, brought me two of the biggest eating apples I have ever seen.

They were red, of course. And delicious. Tune in next week to see whether the National Party in Dunedin can match that.

Labour's broad economic strategy seems like National's but Caygill points out the differences

LABOUR wants to see a more market-oriented, more export-oriented, more internationally competitive economy in the long term.

So says the chairman of the party's parliamentary (caucus) economics committee, David Caygill, in this first part of an interview with Colin James on the party's economic strategy.

Economic strategy was one of the focal points at last week's Labour Party conference, occupying the whole of the first day.

There party leader and shadow finance minister Bill Rowling concentrated essentially on the short-term implications of that strategy as it is emerging from the party's policymaking machinery.

Caygill here outlines the longer-term — 10 years and beyond — aspects of the strategy. In essentials, it reads surprisingly like National's, though as Caygill points out, with different social goals and a larger place for import substitution.

And the short-term strategy — three to five years — is very different relying on much faster Government-stimulated growth, as Caygill will show in the second part of the interview next week.

NBR: You're satisfied now that the Labour Party does have a broad economic strategy.

Caygill: Yes.

Can you give me very briefly the essential points?

Caygill: The headings are:

Firstly, we are concerned to restore growth in the economy.

Secondly, to direct the benefits of that growth particularly at the lower and middle income earners who are missing out at the moment.

Thirdly, to direct that growth into the regional areas that are missing out at the moment.

Fourthly, to ensure that there is sufficient revenue generated for the social programme the country needs, whilst.

Fifthly, ensuring at the same time we solve the balance of payments and inflation problems that we have at the moment and that growth may exacerbate.

The sixth heading is a programme designed to maintain New Zealand control over the elements of the economy where foreign investment is going to be required.

We would not disagree with much of what the present Government is talking about in the long run.

Where do you see the principal differences between your strategy and National's?

Caygill: The difference I would want to highlight between our approach to economic management and the present Government's approach is in the short-term attitudes to growth.

We differ also on the long-term social goals of economic strategy. We want to see a society based on social justice and openness in government.

That aside, we would not fundamentally disagree with the major elements of the Government's longer-term economic strategy, as far as it goes in broad terms we share its enthusiasm for the development of our energy resources and its enthusiasm for restructuring so that our economy is more market oriented.

The energy resources are there and should be developed — quite for whose benefit is another question.

For a long time much of our industry has languished under the advantages of protection.

We have got to become more export-oriented, more internationally competitive where that's possible. It isn't possible in all industries.

So we would not disagree with much of what the present Government is talking about in the long term.

But we disagree very strongly with the notion that the country should tighten its belt and forego any improvement in the standard of living in the meantime.

We do this for a number of reasons — not least because it is much easier to restructure in a time of expansion and much more difficult to do so in a time of contraction or standstill.

Taking the long-term aspects of your strategy, is it correct to say that, for instance, that, setting aside the short-term implications of the textile decision, broadly speaking you accept the thinking that is behind it, looking to the long term?

Caygill: I am not sure that I would put it that way. But what I would say is that we ourselves would want to look in depth at the needs of particular industries.

In fact, I would go further than that and say that the thing the Labour Government has been good at in the past has been getting down to identifying the needs of particular firms within particular industries, to ensure, for example, that regional development actually occurs.

Much of the present Government's emphasis seems to be at the macroeconomic level and its policies are not necessarily flowing through to the level of the individual firm.

We will be continuing sectoral studies that identify the needs in, say the plastics industry or the textile industry or the wine industry, or whatever, to ensure that each of those sectors plays their part in providing jobs, foreign exchange, whatever it is the economy most needs.

You seem to me to contemplate the continuation of some industries that are not internationally competitive — you say "where possible". Do you also contemplate that some industries could die because they are not internationally competitive?

Caygill: I think you have to go back to first principles. The yardstick that we would use above any other to measure success in economic management is the yardstick of jobs. The very last thing we would want to do is to open up New Zealand to international competition across the board because that would have the effect of closing down whole sectors of our economy.

If we can develop, as I believe we can, active labour market policies that are successful in moving people to areas that are internationally competitive, in other words in protecting employment, then there will be change.

You're talking basically about restructuring the economy, aren't you, about moving resources to where they can be more efficiently used?

Caygill: I don't use those … of phrases. But that's the …

But the shape of New Zealand industry will change, in the long-term?

Caygill: Yes.

And what you're saying … longer term, if there is a Labour Government, it is going to have a pretty … hand in how that change … place.

Caygill: I'm not sure that … thing I have said so far … far as that, because … phraseology suggests that … Government is going to be making the decisions … than industry itself and … that's not right.

We are concerned to … that the foreign exchange … ists to provide the … economic activity that … Zealanders want.

To achieve that we have … shift that activity into … export-competitive areas … and up to that point any… I've just said could be sai… say National Party spokesman.

But also we believe it important to stress the role of import substitution in easing some of the foreign exchange problems and in providing employment. And that is different from the strategy that has been adopted by the present Government.

That includes import substitution that may not be internationally competitive?

Caygill: The test of successful import substitution finally is that it is competitive with foreign imports, in the longer term rather than in the short term.

We are now looking 10 years ahead?

Caygill: It might be 10 years in some industries, it might be more in others, it might be less in others.

But there is an important role for import substitutions. The difference between that statement and the kinds of statements that have been made in the past by, say, Bill Sutch, is that we are not talking about protection for its own sake and we are not talking about permanent protection at such a level that the industry ceases to have regard to international competition.

We are recognising that imports have a role to play in lowering the cost structure of the country — using them as a yardstick to measure the success of an import substitution policy.

But if import substitution is to get off the ground it has to involve a measure of protection for a long enough period to give the policy a chance.

New Zealand control. New Zealand for New Zealanders. Does that imply an attempt to finance economic development with capital generated within New Zealand?

Caygill: Yes it does. But we recognise that, certainly as things stand at the moment, the amount of capital required for, say, the development of the Maui field and the downstream development from that is not all going to be available from inside New Zealand. The amounts involved will be simply far too large.

So the Labour Party accepts that foreign investment has a role to play and is going to have a role to play in the country's future.

The theme, New Zealand for New Zealanders, has two aspects to it that I think are consistent with allowing a measure of foreign capital into the country.

The first aspect is that we should be ensuring the criteria — like appropriate regional location of industry being financed from overseas and satisfactory levels of job creation — are applied to that investment before it's allowed in.

It may be all very well for New Zealand capital to get itself involved in speculative rather than productive endeavours, but I'm not sure that we can have the same laissez-faire attitude of the New Zealand economy that are now almost completely in foreign hands and over the longer term the Government has got to do something about that.

Is there not an incompatibility between your second heading, "to direct the benefits of that growth particularly at the lower and middle income earners", and your preference to finance investment from New Zealand sources?

Caygill: I don't think there is an incompatibility that can't be resolved.

In the first place there is no suggestion that we are short of savings for investment. The problem in that regard is that we are not turning over income fast enough.

But we look to self-financing within firms as a result of increased sales as the main source of investment at this stage rather than increased savings of individuals.

You say that you don't fundamentally disagree with the intention to develop the energy resources but do you disagree with the idea that other surplus energy should be sold off for large-scale capital-intensive plants?

Caygill: The fact that they are capital-intensive rather than labour-intensive makes them far less attractive to us in terms of our strategy of generating employment.

But the real question is, sold off at what price? I see no call for the consumers of New Zealand electricity to subsidise foreign capital-intensive development of energy resources by paying far more for electricity than, say, Comalco or any of the other outfits that have been mentioned are going to.

The problem at the moment in assessing the viability of some of the energy projects that have been speculated about is that we don't have publicly available the calculations on which they have been based.

That takes me through to another strategic goal, which is the question of open government in economic management, but I don't want to develop that at this stage.

I am most uneasy at the level of electricity development which is being funded by the present users of electricity rather than out of the energy vote or the national development vote.

If you reduce in real terms the price of electricity to consumers you would have to charge some of the major users of what is temporarily called surplus electricity at rates which may mean their projects are uneconomic.

I have looked closely at Professor (Paul) van Moeseke's analysis and none of what Minister of Trade and Industry (Lance) Adams-Schneider or Energy Undersecretary Barry Brill have said about it seems to destroy the essential thesis.

David Caygill . . . there is a divergence in social goals and a larger place for import substitution.

"They're tough eating on the outside, but the stuffing's tasty."

Economy

Nationalisation needs Government support

Economics Correspondent

MORE Government or less government, that is the question being debated increasingly at political forums. The varied answers are evidence that several political ideologies are alive and well in New Zealand.

A call for more government comes from Jim Knox, president of the Federation of Labour, who wants to see multi-national oil companies and the meat export industry nationalised.

Knox argues that "it is in the national interest that the Government ensure such industries are nationalised in order to curb large profits and dividends going to overseas interests".

He says that the production workers create, should be entirely to the benefit of the country and themselves.

Knox accepts that we require some capital investment from overseas, but the extent of it should be controlled. The problem seems to be that multi-nationals have enough power to take the choicest bits out of New Zealand. Knox complains that land is even being sold to overseas control.

But it is not clear that nationalising these industries would be effective in benefiting workers, even if any profits and dividends remained in New Zealand.

There is no guarantee that Government control will result in industries producing according to what Knox broadly defines as the national interest.

Multi-nationals are in business to make a profit. Commitment to this objective may mean the business takes choice bits from the host country.

It can also mean that the company finds it especially important to maintain goodwill and will plow most of its profits back to the host country.

Enterprises under Government control are expected to fulfill financial objectives other than maximising profits.

Jim Knox . . . oil companies nationalised

Ann Hercus . . . more state accountability

Most central government activity is concentrated in 31 tax funded ministries, commissions and departments which provide services such as health, education and defence.

These activities are voted appropriations through Parliament. They are assessed according to their ability to remain within their budget constraint, not by their ability to generate efficient output.

Government trading operations are expected to be self-funding, but they are accountable to Parliament rather than to the profit motive.

Parliament scrutinises the administration costs of the Earthquake and War Damages Commission, the Public Trust, Government Life Insurance and State Insurance. All or part of the expenditures of the Railways Department, the Post Office, the Ministry of Energy Resources, the Housing Corporation, the Rural Bank and Finance Corporation, the Accident Compensation Commission and the Broadcasting Corporation have to receive Parliamentary approval, even though not funded out of tax revenues.

Government authority is less direct in the case of several corporations and limited companies including the Tourist and Hotel Corporation, Petrocorp, the Shipping Corporation, Air New Zealand Limited, the Bank of New Zealand, the Development Finance Corporation, the Reserve Bank and the Export/Import Corporation.

These state-owned enterprises are expected not only to be self-financing, but to earn a profit.

The lack of profits as a standard for assessing the performance of most state activities creates an atmosphere where a politically motivated Government can chop and change its direction without being called to account for the change.

And even though the Government does not control the day-to-day activities of its limited companies, it shows no hesitation in exercising direct control if the activities are out of line with its other policies.

Not that evaluation of the success of state enterprises requires a profit motive. Activities could be evaluated in terms of other defined objectives. But experience has shown that governments do not specify their long-term objectives or stick to them if they do bother to define them.

With no defined financial objectives and no profit motive, policy-makers tend to formulate goals in terms of the costs of inputs.

Governments and powerful public servants hate to delegate, but when they do, it is not to give up control, but to give underlings the limited authority to purchase and use specified types of inputs.

Spending is assessed according to how close it comes to a budgeted amount, not by its ability to generate efficient output or to benefit the country.

Government-owned limited liability companies have the independence to pursue long range goals and are not as politically accountable.

But if these companies are profit-motivated, why should they be Government-owned in the first place?

Although the taxpayer funds the initial share purchase, the profits of these companies are not paid out to taxpayers. A proportion of the profits are paid into the Government's coffers, but the companies can retain most of their earnings.

And State-owned companies such as Air New Zealand and the Reserve Bank are not much more accountable to the national interest than overseas owned multi-nationals.

Their financial statements are outside the jurisdiction of the Government's Controller and Auditor-General and outside the scrutiny of Parliament.

A Private Members Bill introduced last year by Labour's Ann Hercus would have empowered Parliament to investigate the accounts of all state-owned commercial operations. It did not succeed.

Doug Kidd, the Member from Marlborough went so far as to say that "the House has no business to pry into affairs of an individual company".

The free enterprise National Government has its commitment to government by selling off more profitable state enterprises.

Last financial year it sold shares in New Zealand Steel and Tasman Pulp and Paper.

So, after the taxpayer provided the risk capital, these ventures, they have been turned over to private entrepreneurs who are virtually assured of making profits. Those profits go to the pockets of the directors and managers, not to taxpayers.

Labour Party spokesmen are suspicious that the National Government's interest in more free enterprise means creating high paid jobs for its supporters.

Rather than setting up a department to carry out the national interest, Government has preferred to create limited companies at the taxpayer's risk.

Since Governments do not ... have found it difficult to clearly define their ... objectives, setting up state-owned companies ... a profit may benefit the payer as much.

But as Labour Party ... sident, Jim Anderton ... gested when opening ... party's conference, ... sident of the National ... George Chapman, ... believed in private ... than State enterprise ... should resign his directorship with the state-controlled Offshore Mining Company and the State-owned ... trocorp group.

Because of the ... meanings of the ... "multi-national", "state ... ise" and "free-enterprise" the debate about ... to structure future ... omic development tends to miss the main point. As ... enter the 1980s, the ... interest is not clearly defined.

It may be that ... Zealanders want the high standard of material ... ing that fast-track development brings, despite the ... in higher unemployment ... greater dependence on multi-nationals.

Consultancy services

IMF may borrow direct

DIRECT borrowing from the oil-exporting countries may become a quick way for the International Monetary Fund to obtain additional resources for balance-of-payments assistance when necessary.

The need for balance-of-payments assistance, specially for developing countries, is expected to be great over the next few years as a result of the doubling of oil prices in a little over a year.

Experts say the IMF is in a strong financial position to deal with immediate needs. But in case those needs should be greater than anticipated, the IMF interim committee last month encouraged the fund's managing-director to begin now to talk to possible lenders concerning terms for any possible IMF borrowing.

All but four or five non-oil exporting countries are expected to have balance-of-payments deficits this year, while all but one of the members of OPEC are expected to have surpluses.

The interim committee meeting took two other actions dealing with the problem of "recycling" funds from the oil-exporting nations to the deficit nations:

- It endorsed the World Bank's plan for "structural adjusting lending" – broad programmes to help developing nations make long-term adjustments required by higher oil prices, as opposed to loans for specific projects.
- It asked a task force to examine a broad range of possible "recycling" measures and report at the IMF annual meeting in Washington.

Overseas trade

Khomeini's demand melts as meat prices slump

from John Draper in London

FARMERS singing Ayatollah Khomeini's praises for pushing Smithfield frozen lamb prices above 60 pence a pound are in for a shock.

Not even a swift conversion to Islam will stop the prices dropping sharply in the next few weeks.

Meat importers and wholesalers in London are expecting the high price to melt in the summer sun, before freezing again at as low as 50 pence a pound.

Prices had fluctuated little in the last year until the rapid climb in March and April. Only the stronger sterling gave farmers and exporters any compensation for high inflation in Britain and New Zealand.

The price problem goes back to Khomeini's takeover in Iran. Then exporters dumped an unwanted 50,000 tonnes of predominantly YL, YM grade lamb on an already quiet British market.

With stocks and interest rates high, wholesale buyers – particularly the large supermarket chains which now dominate the retail meat market – changed their buying patterns, and sought only stocks to supply immediate demand.

A lengthy strike at London's Tilbury container terminal compounded the problem as stocks piled up on the wharves and later in the market place consumer resistance to frozen lamb became apparent.

Selling pressure eased last month for the first time for more than a year as stocks dropped to a low 11,000 from the 33,500 tonnes in store in April last year.

The trend was helped by the Iranian appetite for New Zealand lamb (more than 60,000 tonnes this year), support from Iraq and Saudi Arabia and the slow killing season which resulted in no lamb arriving in Britain this month.

But the boom prices, the highest ever, will be short-lived.

Resumed shipments in June and a bigger and earlier domestic lamb kill will deflate frozen lamb prices.

No one is prepared to say how low, and there are some who claim the trade is talking itself into lower prices, but 52 pence to 54 pence a pound for PM grades at Smithfield would surprise few.

Already British farmers are blaming frozen lamb for the low prices they expect to get for their lamb this year. The British kill is expected to be 8 per cent up – 900,000 lambs – while the French maintain their blockade against British exports.

Despite the French intransigence, much British lamb is still earning higher prices in Europe. Within 12 hours of leaving the channel port of Dover, live lambs are slaughtered in West Germany and either exported directly to France free of levies or indirectly by releasing genuine West German lamb for the French market.

Britain is continuing to battle through the EEC Commission to get an earlier European Court decision lifting the ban enforced.

In the meantime lamb is becoming an emotional issue. British farmers, protected by subsidies from low prices, are attacking frozen lamb for holding down prices of home-killed lamb.

Overall, the outlook for New Zealand lamb in Europe is not bright. But, it is not in serious jeopardy.

The Meat Producers Board is gambling that it can send considerably reduced shipments to Britain – 170,000-176,000 this year and possibly slightly less next year – and still win a voluntary quota of 200,000 tonnes for Britain and 30,000 tonnes for the other eight EEC members when a sheepmeats regime is introduced.

But a regime is unlikely before a complex package of negotiations revolving around Britain's contribution to the EEC budget is resolved.

British Prime Minister Margaret Thatcher is blocking the annual farm price review and said she was "incompetent" to discuss a sheepmeats regime until the budget dispute was settled to Britain's satisfaction.

Common Market negotiations baffle even the closest observers. But there are signs that agreement has nearly been reached on a sheepmeats regime. Britain does seem to be prepared to make some concessions on farm prices – after opposing increases for those products in surplus – in return for the eight's agreement to reduce net budgetary payments from the present 1000 million pounds to the British target of 150 million pounds.

New Zealand can only stand on the sidelines and lobby, trusting Maggie's steel nerves do not buckle. The sheepmeat regime taking shape seems to be yet another prize for compromise.

The French want a full EEC price support scheme with intervention buying and storage paid for by the community. The British do not.

But Britain will accept voluntary private storage when prices drop, as applies to pork, which will cost the community much less.

Now the French have proposed a hybrid, some private storage with some community funding.

However it works, New Zealand will be called on to impose voluntary restraint. Already there are fears that the EEC will demand less than 200,000 tonnes, but Iran has already indicated it wants 100,000 tonnes delivered next year, more than double the original contract tonnage.

Margarat Thatchar . . ."incompetent" to discuss regime

Ayatollah Khomaini . . . prices will drop regardless

Although lamb production should be up next season, there is unlikely to be any spare to boost British supplies closer to 200,000 tonnes. Voluntary restraints, quotas or restrictions of any kind are opposed by the London meat trade.

Towers Co Ltd's London executive chairman, John Buxton, said the effect of any "voluntary constraint" would further strengthen the buyers' hand allowing them to manipulate the market against the interests of New Zealand farmers and exporters.

And a depressed Smithfield price, although it now handles a declining percentage of the trade, can have severe effects on New Zealand lamb sales worldwide.

Most overseas sales are based on the Smithfield level which also serves as an indicator to New Zealand farmers to make decisions to build or decrease flocks.

The Meat Producers Board has been worried for sometime at the reluctance of the Smithfield price to keep pace with inflation and has introduced compulsory storage schemes in London aimed to stop the price dropping too low.

Traders are sceptical of the benefits of the scheme, now suspended, contending that the price would not have dropped any lower than it did anyway.

More ominous for New Zealand lamb's future is the British retail price.

In 1979 the retail price went up 8 per cent for frozen lamb while PM grade lambs at Smithfield sold for 56 pence a pound in January and only 48 pence a pound in December.

Overall retail beef prices increased 18 per cent, rump steak 14 percent, pork 6 per cent, legs 9-10 per cent, and poultry 8 per cent.

In butchers' shops, lamb and pork are now virtually the same price and a recent nationwide pork promotion has substantially boosted sales.

Importers were aware of resistance from the trade to the higher frozen lamb prices which were not immediately reflected in retail prices, indicating that sales could be expected to drop if the housewife was asked to pay more.

O'Brien on business

Commercial guardian angels prepare to open cans of unsavoury worms in a takeover review

PETER V O'BRIEN comments on the financial and business week, appraises the share market and analyses company accounts.

THE Securities Commission's review of the law and practice relating to company takeovers may open several cans of unsavoury worms.

The commission's press statement says: "The commission intends that the review will extend to an examination of the tactics employed by offerors and persons associated with them, as well as to the tactics employed by target companies and by offerees. Where necessary, the commission will exercise its statutory powers *to ascertain the details and documentation of relevant practices.* The review will extend to a consideration of operations on the stock exchanges in relation to takeovers, including the operation of the takeover code and other rules of the stock exchange. In addition, the commission *desires to examine the relevant practices of intermediaries of all kinds.*" (*NBR* emphasis).

The statement says particular attention will be devoted to tactical defences that have been used, including "defensive" allotments of shares, dealing with assets, formation of contracts intended to deter offerors, "and the like".

The commission should have little difficulty in this area, particularly the "and the like" section.

Eyebrows were raised in the United States when Joseph Kennedy was appointed a corporate watchdog. The rogue of Boston, Wall Street, and sundry other markets was considered an unlikely person to take a hand in sorting out corporate naughtiness.

Without drawing a direct comparison between Kennedy and the overseers of corporate naughtiness in New Zealand, the commission seems peculiarly qualified to look at the defences listed under "and the like".

Chairman Colin Patterson spent the 1977 Christmas hols using his classy legal mind, knowledge of the byways of company law and drafting skills devising Androcles Corporation, designed to remove a doubtful prickle from the paw of Lion Breweries.

Time passes, and as it passes legal and corporate imps can transmute into the form of commercial guardian angels.

The examination of the tactics used by offerors, and the relevant practices of intermediaries "of all kinds", could fill the financial news pages with "shock, horror, probe" stories for days if the commission decides to examine the "details and documentations of relevant practices" at public hearings.

There may be problems in ascertaining the details and documentation, because many takeovers are notable for their lack of paper until the scheme is well down the track.

The steps involved in forming an intention to take over a company, and then putting it into practice, are many. They are often taken slowly (it may be up to a year or more before the sharemarket, the target company and/or the shareholders have any idea that someone is trying to acquire a significant shareholding.)

In some particular calculated takeovers the first step is the background research. Many shareholders in public companies would be surprised to learn how detailed the research can be, and how easy it is to build up information on a company from either public or readily accessible sources, without indulging in industrial espionage.

You start with the accounts, and then rewrite them. The published accounts of some public companies are interesting documents for shareholders who still believe in fairies and in the idea that there are financial "facts".

They are little use to a potential offeror, particularly if the target has a poor performance record.

The investigator is able to put a realistic value on the assets after analysing the accounts.

Fixed assets, particularly land and buildings, are important in this process, because they are often undervalued. The location of the properties can be established by a trip to the Post Office, which contains useful [illegible] lications known as telephone books for the [illegible] country.

The company's file at [the] Companies Office [illegible] details of the mortgages [illegible] properties.

A combination of [illegible] dresses, and mortgage [illegible] deed details, allows [illegible] legal descriptions of [illegible] properties. The Land Registry Office has the purchase [illegible] freehold property, information on mortgages and [illegible] figures relevant to lease [illegible]

A friendly solicitor or [illegible] agent will get you the [illegible] government valuation, [illegible] land agent's connection [illegible] other towns has an idea [illegible] present market value, and [illegible] state of the property [illegible] property may have a [illegible] tical "value", but in a [illegible] market that value has [illegible] discounted).

Travel to each site gives [a] keen observer substantial [in]formation on size of [illegible] relevant to operation, whether there is room for expansion, and the likely [illegible] maintenance and upgr[ading].

It also allows an assessment of many other fixed [assets] such as plant and equipment and motor vehicles. (It is amazing what can be learned from looking at things from the street. There is no law or ethic which prohibits anyone from looking at things on public display).

The investigator will examine stock values closely, because stock is often a trap for people who leap into the takeover business.

Takeovers can turn sour through an over simplified assessment of stocks. Others are abandoned if the stock is out of fashion or subject to market whims.

Purchasers of textile companies in particular have learned that lesson.

Specialised stock also causes problems, as can companies which depend on government contracts or a continuation of a special official policy which assists the industry or company.

The potential offeror now has most of the basic financial information he needs. Management assessment is the next stage, assuming the buyer intends running his new toy with the same people, and wants to make a profit from trading.

It is only a minor exaggeration to say that in a country the size of New Zealand you can find out a vast amount about people and what they had for breakfast without using private eyes, bugs, or hanging by the heels from window ledges.

By this stage of takeover investigation there may be minimal "documentation" of the long, detailed (and often boring) work. The Securities Commission has a daunting task in establishing evidence of those "relevant practices".

A company may decide to enter the market for shares, either as a strategic position, or as a base either for a full takeover or to entice another purchaser.

A lot of nonsense is talked and written about people who "lose" takeover battles. They often laugh about their loss on the way to the bank.

And that brings in another point which the commission can ponder in its review. When is a takeover not a takeover? When there is no intention that it should succeed, but should provide the suspected "offeror" with a profit when he sells out to another offeror.

Buying shares in the target can be risky. It needs a skillful broker who acquires shares without attracting attention, or pushing the price to the level where other people become suspicious.

A few years ago a takeover was abandoned because the shares jumped sharply on high volume when the buyer could not control the market. The rest of the investment world came in for a share of the action, and everyone lost. There was no takeover and the price slumped.

Jumping into a market when someone else has already made an offer is another profitable "practice". Your attentions are unwelcome, and eventually you may do a deal with the serious offeror.

The practice can approach market manipulation, but the latter is difficult to prove. It is equally difficult to devise a sanction against the practice.

The commission will have to look at the form of takeover documents, and the target company's replies.

Colin Patterson . . . classy legal mind.

The majority of takeover proposals in New Zealand are relatively straightforward, but when they are opposed the knives come out. Outrageous statements have been made, and probably will be made in future.

The trick (if it can be called that) in a tough takeover is to throw the book at the opposition, make direct appeals to the shareholders, issue numerous press statements attacking the chairman's hair style, use the lawyers to the extent that you can afford those high-priced "intermediaries", but to keep your balance on the knife-edge.

Who knows, in a few weeks you may be sitting around the table with yesterday's enemies, and we do want the meeting to run smoothly, don't we, since we are talking about money?

I realise that this description of some takeover activity is highly cynical, but we are not talking about romantic nonsense emanating from the research pen of a university academic.

Takeovers can be tough, and can get dirty. The defences can be just as tough and just as dirty, particularly when the corporate lords of the manor think their divine right to rule is under attack.

They can be so dirty in such a nice way. The interloper may never know what has been said, but subtle doubts have been cast on his ancestry, intelligence, financial stability, personal habits, acquaintances, and anything else except the merits of his offer.

That is the dark side. Many takeover offers, and their replies, are conducted fairly and with scrupulous regard to the merits. The shareholders, the public, and employees are kept fully informed of developments.

Those practices keep the corporate ship upright, and should cause little concern to the Securities Commission.

The commission has said it will examine the "interface" (a dreadful word which is becoming part of modern jargon — what is wrong with "interaction" or "overlapping"?) of the Companies Amendment Act, 1963 with the Commerce Act and the Overseas Investment Act.

There is room for rationalisation between these statutes. Parts of the Companies Amendment Act conflict with the Commerce Act.

Analysing accounts: [illegible] New Zealand Refining Co

THE New Zealand Refining Co's financial performance is dreadful under the standard criteria applied to company accounts. But it is questionable whether standard criteria can be applied.

The company's structure, operations, and unique position in the economy subject it to constraints inapplicable to most industrial companies.

The Government decides the company's processing fees through the Ministry of Energy — the first constraint is on revenue.

Fees were initially fixed last year at 92 cents a barrel, but later increased to 99 cents a barrel when, according to the directors' report, "it was apparent that throughput would fall below the estimated level, and that costs were increasing to a higher level than budgeted".

The specialised nature of company activities is the second restraint.

New Zealand Refining brings "crude and feedstock intake" into the refinery and produces refined goods under four headings: motor gasolines, automotive and diesel fuels, light and heavy fuel oils, and bitumen.

The biennial shutdown for overhaul is also an operational constraint, which eventually works into profitability. Plant was shutdown for about six weeks for overhaul this year at a cost estimated at $2.4 million. The report for the year ended December 31, 1979 said the intake level would fall below that achieved in 1979 because of the overhaul. [illegible] be presumed that output [illegible] profit will therefore [illegible] under pressure.

The company is New Zealand's only refiner, [illegible] plays an important part [in the] national economy. It [illegible] to operate in a unique market, because there [illegible] competition. [illegible] oil companies own the [illegible] shareholding, and [illegible] the finished products.

The contracts [illegible] financial returns [illegible] spective. New Zealand Refining earned 11.1 cents a share last year and paid [illegible] cents a share in dividend [illegible] payment was covered [illegible] times.

The return on [illegible] shareholders funds was 3.5 per cent, an improvement on the previous year's [illegible] per cent, and 1977's 2.9 per cent.

In 1976 the return was [illegible] per cent. That figure was struck before [illegible] revaluation undertaken [in] 1977.

The 1979 crude and feedstock intake was slightly [illegible] than that achieved in 1978. Last year the company processed 3,072,000 tonnes of crude. The 1975 to 1978 figures were:

Year	Tonnes
1975	[illegible]
1976	[illegible]
1977	[illegible]
1978	[illegible]

Biennial overhauls affect those figures, but the operation is running [illegible] stand-still. Revenue can [illegible] increase only through [illegible]

processing fees for roughly the same amount of intake and production.

The table gives the company's processing fees and operating expenses over the 1975-1979 period. The figures are in $000, and exclude depreciation and tax.

Year	Processing fees	Operating expenses	Balance
1975	12,411	8946	3465
1976	18,339	11,338	6991
1977	17,028	11,921	5105
1978	18,754	13,809	4945
1979	23,933	18,004	5829

Deduction of depreciation and taxation produces the low profit which in turn gave the minimal return on investment.

The unusual finances can be looked at in another way. New Zealand Refining had total assets at $80.4 million at the end of 1979, and shareholders funds of $69,776,000. (That gives a proprietorship ratio — shareholders funds to total assets — of 86.7 per cent — an extraordinarily high figure for any company).

On the financial structure, the company has accepted a bankers' offer of a $US500 million Euro-dollar loan to finance refinery expansion.

The injection of that money into the balance sheet lowers the proprietorship ratio to 12 per cent, a figure which is normally at the other extreme of financial prudence, in the absence of substantial equity investment to match the gearing.

The operative word is "normally". New Zealand Refining is not a "normal" company (although more equity is likely as the refinery expansion gets under way).

Application of the "standard criteria" referred to earlier become meaningless. It is clear that the share market takes the same view, because last week the shares were selling at $1 for the $1 units. The market priced them at nine times last year's earnings, with no guarantee that the 1979 return on capital will be repeated this year, unless the increase in processing fees keeps ahead of increases in costs.

Analytical life would be easier if there were one or two more refineries operating in the country. Comparisons could then be made of performance on an industry basis. When the "industry" is one unit, producing and selling to a small population under New Zealand conditions, any assessment of the year's results is a hit and miss exercise.

Even so, a 3.5 per cent return on shareholders funds and a 1.2 cover for the dividend is at the lower end of New Zealand public company results.

O'Brien on business

Private sector credit growth contracting

THE annual growth of private sector credit is rapidly contracting in line with the drop in other monetary aggregates.

From an annual growth rate of 29 per cent in the year to June, 1979, private sector credit expansion fell to 20.8 per cent for the 12 months to March, 1980. The figure was outside the 8 to 12 per cent announced as a Government goal last year, but a continuation of the present trend could see that range reached as an annual running rate by June or July.

The table, compiled from Reserve Bank information, shows the annual growth rates for two principal monetary aggregates and private sector monthly during 1979-80.

The M1 aggregate is usually referred to as the narrow "money supply". It comprises notes and coin in the trading banks, plus trading bank demand deposits and savings bank cheque accounts. The figure is after deduction of Government deposits and trading bank deposits held by the financial institutions included in the Reserve Bank's monetary aggregates.

The addition of demand, call and time deposits in the POSB, trustee and private savings banks, finance companies, official money market dealers and stock and station agents, net of the deposits of those institutions with each other.

"Private Sector Credit" is

Percentage annual increase on some months of previous year

1979	M1	M3	Private sector credit
April	18	19	26
May	13	20	28
June	13	19	29
July	12	20	27
August	9	19	27
September	9	19	25
October	4	17	27
November	5	17	23
December	7	18	23
1980			
January	5.0	18.3	22.4
February	5.4	18.7	21.2
March	7.1	14.7	20.8

defined as "lending by the 'selected financial institutions' to the private sector". It includes holdings of local authority securities.

Movements in the money supply, M3, and private sector credit interact on each other, in the sense that reductions in the money supply work through eventually to M3 and to private sector credit, after a time lag, roughly estimated at about nine months, according to research work done by the Institute of Economic Research's Bob Buckle and Suzanne Snively, and in the Reserve Bank.

Various factors affect the aggregates. An increase in export income remitted to New Zealand increases money supply, and then the other aggregates. Overseas borrowing, whether in the public or private sector, has a similar effect. It lifts the amount of money in the country.

If the Government finances its internal budget deficit from sources other than non-bank private sector borrowing, that too will put upwards pressure on the monetary system, and lead in turn to an expansi[illegible] private sector credit.

Budget deficit fin[illegible] through substantial loan[illegible] the private sector has the [illegible]posite effect.

The recently publish[illegible] *Stabilisation Role of [illegible] Policy* by Reserve [illegible] economists, Rod Deane [illegible] Richard Deane, prepare[illegible] the Planning Council, [illegible] plains succinctly the effect [illegible] Government deficit fina[illegible] on the money supply.

Overseas borrowing [illegible] borrowing from the Re[illegible] Bank, gives no offset [illegible] pansion of the money su[illegible] although overseas borro[illegible] does assist the external [illegible]

Borrowing from the tr[illegible] banks also has no offset [illegible] money supply, but borro[illegible] from the non-bank p[illegible] sector reduces both the [illegible] supply and the reserve[illegible] of the banking [illegible] because the public [illegible] bank financial institu[illegible] finance purchases of Go[illegible] ment securities "by u[illegible] deposit balances with [illegible]

Rapid increases in [illegible] tary aggregates, and [illegible] private sector credit, [illegible] erally regarded as and [illegible] in the inflation rate [illegible] monetarists claim that [illegible] major element. That [illegible] now tempered, partic[illegible] an economy like [illegible] Zealand, which is [illegible] dependent on the [illegible] scene.

Control of the mone[illegible] ply can take several for[illegible] of which have an influ[illegible] interest rates, the [illegible] economic climate, and [illegible] fore on business activi[illegible]

It is more than coincid[illegible] that interest rates are ris[illegible] the money supply, M3 [illegible] private sector credit ex[illegible] sion fall. At some [illegible] theoretically, the contra[illegible] of the monetary aggre[illegible] should flow through to [illegible] demand for credit in [illegible] junction with a peak in[illegible] rate.

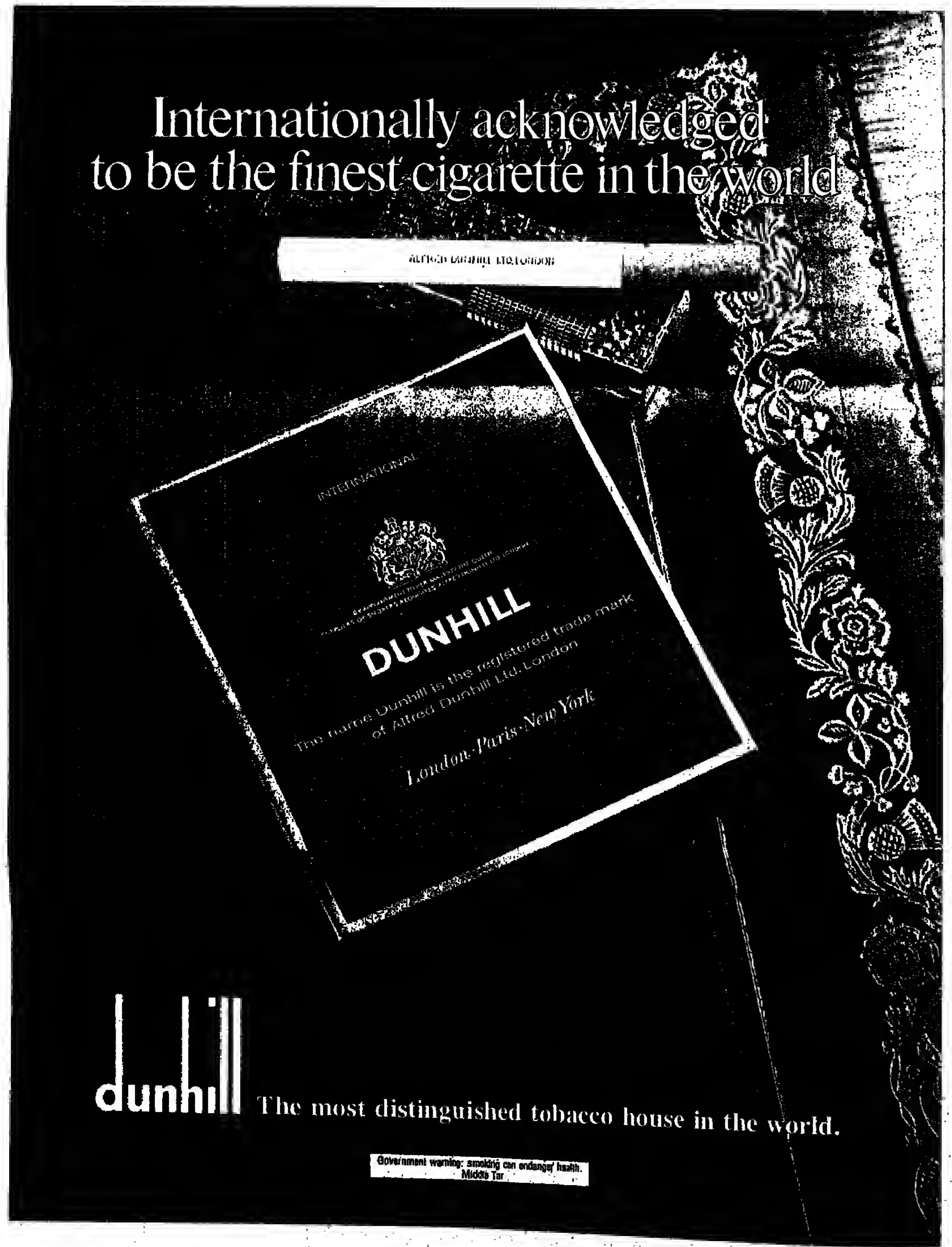
In the New Zealand [illegible] we have yet to develop [illegible] monetarists' full contr[illegible] money supply growth. [illegible] advocate regular sale [illegible] Government securities a[illegible] ying rates for the parti[illegible] issue, to keep growth w[illegible] appropriate limits, even [illegible] monthly basis.

New Zealand has onl[illegible] rudimentary system of [illegible] stocks, confined to the Rese[illegible] Bank's willingness [illegible] Government securities [illegible] stitutions, at, or close to [illegible] rate on the last [illegible] Government issue.

The figures in the [illegible] suggest that, apart from [illegible] obvious time lag [illegible] interest rates could [illegible] the optimum growth [illegible] aggregates is achieved. [illegible] point (and subject to [illegible] inflation rate, which [illegible] theory should be pushed [illegible] in part by the slow [illegible] and credit growth) [illegible] rates would stabilise [illegible] declining.

That is happening in [illegible] United States, admitted[illegible] different economy, altho[illegible] inflation is still a major pro[illegible] lem of American econo[illegible] management. It is suppose[illegible] happen eventually in Brita[illegible] but industrial, EEC, and oth[illegible] factors complicate the Britis[illegible] assessment.

Monetary aggregate figures in New Zealand are not [illegible] another set of figures [illegible] playing theoretical economi[illegible] games. In conjunction wit[illegible] other economic indicators [illegible] policy adjustments they affe[illegible] business and all sections of the community.



Law

Carrier code emerges from long road of reform

by Jack Hodder

THE law relating to the carriage of goods has long been recognised as inadequate. Similarly, the process of law reform has been recognised as exceedingly slow.

The combination of these facts make June 1 1980 significant. On that day the Carriage of Goods Act 1979 comes into force and provides, for the first time, a code of liability for all domestic carriers of goods.

As well as being of intrinsic interest for its new regime for loss liability in a vital area of economic activity, the new Act points the way towards future changes in the fundamental law of contract and provides a classic example of the pace of legislative law reform.

The present law relating to the carriage of goods is dominated by the common law concept of a "common carrier" – holding themselves out as carrying for all who request their services, obliged to carry any goods tendered to them and legally liable for virtually all loss or damage to these goods. And limited in that liability (to a mere $40 per package or unit, unless the value has been specifically declared to the carrier) by the Carriers Act 1948.

These features together with the ordinary law of contract have been found wanting as the value of goods carried has soared and modern transport techniques – door to door freight forwarding and containerisation – flourished.

The Carriage of Goods Act makes a fresh start. It abolishes the duty of carriers to accept all goods offered to them for carriage. It provides that carriers (except where they intentionally cause loss) can be liable only in terms of the Act.

It specifies that contracts for the carriage of goods must be one of four kinds: "at owner's risk"; "at declared value risk"; "on declared terms"; and "at limited carrier's risk" (this last kind being the norm and with special preconditions to recognition of the other kinds).

Under the Act the original parties to a contract for the carriage of goods are called the "contracting party" (normally the consignor) and the "contracting carrier" (who may carry the goods themselves and/or enter into contracts for their carriage by other carriers who then become "actual carriers" of the goods).

If there is loss or damage to the goods the contracting party can recover from the contracting carrier. The contracting carrier can in turn recover from all other actual carriers involved (except those who prove positively that the loss or damage did not occur while they had responsibility for the goods) in proportion to the remuneration received by each of them for their services.

The liability of carriers under "at limited carrier's risk" contracts is limited to a maximum of $500 for each unit of goods lost or damaged.

In most cases the unit represents the item as accepted for carriage by the first actual carrier.

If AB Ltd have 10 pallets of widgets to be delivered somewhere by a carrier then AB Ltd's maximum claim in the event of total loss would be $5000. That would be irrespective of whether the carrier placed all 10 pallets into a single container. But, if AB Ltd placed their pallets inside a container, the container would become the unit and the maximum liability of the carrier would be $500.

The $500 figure caused considerable difficulty during the Act's long gestation.

The original Bill (following the original law reform committee report) included a figure of $1000. That caused some consternation and was one of the principal reasons for the Bill being sent out to a special working party for reconsideration in 1978. The working party, hampered by the absence of useful statistics in the area, but apparently impressed by NAC figures showing nearly 94 per cent of claims amounted to less than $240 per consignment, recommended the $500 figure.

(It was in the context of fixing the limitation figure that the working party noted – with some amazement – a Railways suggestion that losses in transit by rail might run as high as 2 per cent of freight turnover – something like $160,000,000. If that was the case, said the working party, then a radical overhaul of Railways security would appear to be warranted.)

Arising from the working party's report was the question of whether the Post Office should be subject to the provisions of the Act.

The report suggested that there were good reasons why the Post Office should be subject: there could be anomalies where carriers acted as contractors to the Post Office: the Post Office would be competing with the developing courier service industry (covered by the Act) but operating under different rules. The Government ignored that recommendation and the Post Office (along with the Ministry of Defence) is specifically excluded from the scope of the Act.

Other features of the Act include the following:

- Passengers leaving their hand baggage behind may be considered contributorily negligent and there are special limits on carriers' liability for loss or damage to hand baggage;
- Employees of carriers will only be liable (but liable without limitation) for intentional loss, theft for example;
- Carriers are not liable where loss or damage occurs (without fault) from an attempt to save life or property in peril.

As mentioned, the Carriage of Goods Act has important implications for the general law of contract.

The provisions relating to the kinds of contract of carriage deal with the question of bargaining power and contracting out of the provisions of the Act. Contracts of carriage are to be deemed to be of the normal ("at limited carrier's risk") type unless safeguards are observed. A contract "at owner's risk" (very common in the past Railways system) will only be recognised as such if it is in writing, signed and if the contracting party signs a "conspicuous" statement (specified in the Act) to the effect that the carrier is under no liability for loss or damage.

This balance between freedom of contract and unequal bargaining power is found on the disclosure philosophy (recently expounded by the Securities Commission in its proposed regulations for prospectuses) and may point the way to legislation of more general application.

The gestation of the Carriage of Goods Act probably sets some sort of record.

The original report from the Contracts and Commercial Law Reform committee was presented to the then Justice Minister in April 1968 – over 12 years ago.

A Bill was not introduced into Parliament until August 1977. The Statutes Revision Committee in March 1978 arranged for the Bill to be reconsidered by the working party (chaired by the ubiquitous C I Patterson, now chairman of the Securities Commission) which reported back in November 1978. One year later the Bill received the Royal Assent and became an Act. And, finally, in a fortnight it becomes operative law.

What was that crack about the "Fastest Legislature in the West"?

BPA president's clean-up vow — admen urged to educate clients on the pitfalls of blind buying

AUCKLAND advertising executive Bob Hervey, addressing a recent seminar for New Zealand publishers, stood by a table piled high with little-known trade and associated magazines. On his left was a huge rubbish bin.

One by one, Hervey ripped the magazines to shreds — both verbally, and physically. Then he turfed them into the bin.

He made clear that from an adman's point of view, such magazines were worthless.

The Business Press Association, which sponsored the seminar, was of a similar mind. So were most of the publishers present.

BPA president Glen Lenoel has said he is out to clean up the publishing business.

The BPA is insisting that members have independent circulation audits as proof to the advertisers that they are getting their advertising dollar's worth.

The admen present were urged to insist on audited circulation figures before spending clients' money on advertising in magazines with unproven circulations.

Admen were urged to educate their clients on the pitfalls of buying advertising blind.

They were told that a community of interest existed between publishers and advertising agencies. If a portion of total advertising money was wasted, the cost effectiveness of all advertising was brought into question and both the agencies and the publishers would suffer.

Educating the clients was not easy, one adman pointed out. Some clients advertise in a trade union magazine not to increase sales but for public relations reasons or to buy industrial peace.

Talk at the seminar, and over drinks and lunch, revolved around some practices employed by some publishers — supplying precise details of circulation or readership, billing companies for ads they had not ordered or wanted, leading advertisers to believe their advertising dollars would support a worthy cause or industrial group when this was not always so, or confusing potential advertisers with a magazine title leading them to believe it was published for a worthy cause or a sector, or that could easily be confused with another magazine of similar sounding name but different circulation or quality.

National Business Review's Warren Berryman has looked at some 90 minority-interest publications.

The following reports illustrate some aspect of the publishing industry complained of by publishers, admen and advertisers:

Duplicated titles

SOUTH Otago Newspapers Ltd, publishers of *Otago Farmer* and *Southland Farmer*, were mystified and annoyed when a rival publisher began soliciting advertising for two magazines with the same names.

South Otago Newspapers' *Otago Farmer* has been in existence for seven years. The *Southland Farmer* for five years.

Some weeks ago advertisers began receiving phone calls soliciting advertising for the *Otago Farmer* and *Southland Farmer*. The calls did not come from South Otago Newspapers.

Then the advertisers began receiving invoices for advertising in the two magazines. The invoices did not come from South Otago Newspapers.

No one had seen a copy of the two mystery magazines.

South Otago Newspapers general manager Mike Bridgeman began checking and traced the invoices back to South Island Publications, a division of Auckland-based Tasman Publishing Ltd.

Tasman ad salesman John Northern told *NBR* his company was behind the two magazines.

Questioned about the titles of the magazines, Northern said: "Without us knowing it, somebody down south started up two publications of the same names."

He said Tasman had 16 or 17 farming magazines, one for each province (for example, the *Waikato Farmer*).

The names of Tasman's yet - to - be - published magazines have been changed to the 1980 *Otago Farming Review* and the 1980 *Southland Farming Review*. Northern said the magazines should be out in a matter of weeks.

Editorial copy for the publications came from regional branches of Federated Farmers, Northern said.

Bridgeman said the names of his two publications were registered with the Post Office, but were not protected by registered trade names.

To counter the confusion between Tasman's magazines and its own, South Otago Newspapers will run ads in South Island newspapers explaining just who publishes what, and write articles for its own papers to the same effect.

South Otago Newspapers has considered seeking an injunction against Tasman.

Meanwhile, Auckland publishers are similarly concerned that their publications might be confused by advertisers with those published by Tasman.

Unwanted invoices

COMPANIES have been receiving invoices for magazine advertising that they neither ordered nor wanted.

The invoices generally bear the name of the magazine and a box number to which the money is to be sent, but not the identity of the publisher.

Matching Post Office box numbers and phone numbers, our reporter tracked down several of the mystery publications to Auckland-based Tasman Publishing Ltd.

Tasman publishes *New Zealand Seaports* in competition to REM's *Port News*.

Tasman also publishes *Transport Industry News*, *Fishing Industry News*, *Industrial Relations Review*, *NZ Seafood Buying and Catering Guide*, *Trade Union News*, *Waikato Farmer*, *NZ Athlete*, *NZ Yachting*, *Building Construction News*, *Industrial Health and Safety*.

We heard complaints that some companies had been billed for ads which they had not authorised in some of these magazines.

Tasman's advertising salesman, John Northern (an ex-REM employee) said he supposed Tasman did receive a few complaints regarding unauthorised ads.

"But this," he said, "must be considered in light of the fact that Tasman has 5000 advertisers".

Tasman is run by Geoff Adams. Adams was previously Auckland sales manager of Percival Publishing.

Rival publishers which produce magazines with similar titles to Tasman's publications, or for similar or the same interest group or industrial body, have expressed concern that their publications are being confused in advertisers' minds with those of their rivals.

Making it "official"

PUBLICATIONS produced by REM Printing and Publishing have one common feature: they seem "official" publications of an organisation usually a union or a charitable body.

Ties with a well known organisation help REM advertising salesmen sell space. REM's large stable of magazines ...

Most of the bodies whom REM publishes for are clearly identifiable. But at least one was not.

In March 1973, REM (then known as Direct Publications) started a new magazine *Environment and Control Equipment*.

The magazine's editor, Frank ... told *NZIR* that the idea ... into this country ... awareness of ... matters.

Environment and Control Equipment was, according to the title page, "published by the ... Control and Environment Preservation Society (Inc)".

A recent search of Companies Office files of incorporated societies failed to turn up an organisation with this worthy name.

But there was a society with a similar name — the Pollution and Environment Preservation Association of New Zealand Inc.

The 15 charter members of this society included the names of REM partners Brian McSweeney and Terrance Lambert.

Also listed was ... Evans, ex-chairman ... member and past editor of REM's publication *Port News*.

The objects of the society were listed: "to promote ... pollution of the environment, the preservation of ... ecology and to encourage preservation of natural ..." and "to hire or employ such secretaries, clerks, managers, servants or workers and to pay for them and ... persons in return for services to the society such salaries, wages, gratuities or pensions as the executive of the society shall think fit ..."

Incorporated society files show it was set up by ... and McSweeney's ... Carl Howard-Smith.

Company Office sources said the society has failed to provide the public with an address as a registered office, or annual returns. The society has failed to reply to letters from the Companies Office requesting this information, the sources said. The society is in danger of being struck off.

Heading the list of the society's charter members is the name of John G... McAneney. Apart from his interest in matters environmental, McAneney is known for some of his less successful business ventures.

He would be well remembered by those who lost money in McAneney's ... franchise scheme, ... Publicity, and his ... magazine *Neet*.

Neet is now defunct. But further incorporated ... remains on Company Office files — Environment Research Association Inc. set up by McAneney. This association sponsored two page ads in *Neet* — the only place where the ERA appears to have come to public notice.

McAneney's list of failed ventures include: the Newport Jazz Festival raffle which attracted the attention of the Fraud Squad when hundreds of people were left with worthless tickets.

Then there was McAneney's Singles Club — $10 membership fee — which folded shortly after it started.

And then there was McAneney's Tiki Trading Company which tried to introduce trading stamps to New Zealand until Government put a stop to it.

Other charter members of the Pollution and Environmental Preservation Association of New Zealand Inc include members of REM's staff — some of whom have since moved on to work for similar publishing companies.

One charter member, Roger Blewett, acknowledged that the signature of the document was his own but said he had no recollection of joining the society: nor did he know anything about its operations.

Blewett previously worked for REM (when it was known as Direct Publications). He now runs Plymouth Publications (formerly known as Rodnor Publications). This company publishes *Navy News*, *ASCA*, *Pensioners' Voice*, *Cosmopolitan Club*, several RSA magazines and others.

Rodnor was formerly owned by Blewett and Tony Hyde-Harris. But now under a new name, Plymouth Publishing, Hyde-Harris left the operation and been replaced by one of Blewett's long-standing employees.

Hyde-Harris was formerly running the *National Informer* magazine assisted by Richard Allan Cowan.

Hyde-Harris, who faced Court prosecution in respect of this paper, told the court the *National Informer* was established to capture the market previously held by the adult magazine, *Censored*, which ceased publication for a period when it was found to be indecent. *Censored* later commenced publication again in modified form; but neither paper survived for long.

The *National Informer's* assistant editor, Richard Cowan, was later involved in North American Business Systems (A'sia) Ltd — a vending machine franchise operation.

Stretching the revenue

PERCIVAL Publishing devised a way to boost advertising revenue for one or its publications without increasing circulation or writing more editorial copy.

This money spinning scheme can best be explained like this.

Take two issues of Percival's magazine *The New Zealand Lawn Bowler*, official journal of the New Zealand Bowling Association. One issue came from the South Island. The other from the North. Laid out on the desk both copies look identical, same cover, date, volume and issue number.

But flick over the pages and one will find the same editorial copy but different advertisements. Presto! Just about double the ad revenue from the same magazine.

National Business Review asked Percival's general manager, W E Chambers, if the advertisers were aware they were getting only regional coverage — and not national coverage — when they bought the ad space.

Chambers said he did not know if advertisers knew about the regional breakout or not. We would have to ask the advertisers, he said. *NBR* did. And the advertisers were not aware.

Percival, an Australian-owned company, has a stable of 32 magazines here.

Percival's ad salesmen, known as "phone jockeys" because they approach companies by phone rather than in person, would earn up to $27,500 a year from their 20 per cent commission on ads sold.

Chambers said the circulation of *The New Zealand Bowler* was about 5000 copies with two regional breakouts for advertising.

The latest *Bob Wardlaw Media Digest* (an advertising operators handbook) puts the bowling magazines' circulation at 9500.

An editorial in the September 1979 issue of the bowling magazine speaks of "4000 copies of the journal for a male bowling population of 55,000".

All of which makes it rather confusing for the advertising media buyer trying to figure out how many people his advertisement will reach.

Advertisers claim they have difficulty obtaining precise circulation figures for Percival's publications. The information provided, they claim, is often vague and insufficient for calculated media buying.

The Press Research Bureau, which publishes the *Advertising Directory and Media Planner* (soon to be called the *Media Planner*), is reluctant to list publications which do not provide advertisers with precise information on circulation and readership.

Percival's sales manager John McMahon said circulation figures were available to advertisers if they wanted them. These figures were in the *Media Guide*, he said.

But Percival did not get a lot of business from these listings and it was thus a waste of time compiling and sending in the information, he said.

Percival no longer publishes *The New Zealand Lawn Bowler*. It was taken over by Marlborough House Ltd last December.

Marlborough House's general manager, Robin Craze, said there would be no more regional breakouts. His company is aiming to produce a good bowling magazine, and appears to be succeeding.

Recent issues of the magazine show a revamped high-quality production, articles written by professional sports writers and professional photography with a full colour front and back cover.

The cover price went up to $1 a copy for the bi-monthly publication. Ad content has been reduced.

Under Percival, the magazine was written by bowling club members free of charge to Percival. Percival received the ad revenue.

The Bowling Association received subscriptions of $1 a year for four copies a year from which the association had to cover distribution costs. The $1 a year did not cover handling and postage and left the association with a deficit.

Percival's publications include *Alegro*, *Auckland Golfing News*, *Australian Harness Horse*, *Brewers and Bottlers Journal*, *Firefighter*, *NZ Environmental Health Inspector*, *Focus*, *Frontliner*, *Health and Environment*, *Mainport*, *Maori Golf*, *the Meat Exporter*, *Plumbers and Gasfitters*, *Railway*, *Rescue*, *Safety Management*, *Senior Citizen*, *Ship and Shore*, *NZ Soccer*, *Stud and Stable*, *Textile News*, *Thoroughbred*, *Warehouse Worker*, *Power*, *International Police Association*, *The Journal*, *Deaf News*, *Works News*, and others.

Advertising cancelled

AN Auckland company cancelled its advertising and is seeking its colour ad material back after discovering that a magazine billed as the *Journal of the New Zealand Institute of Industrial Engineers* did not have the official authorisation of the NZIIE.

The journal, according to the blurb sent out to prospective advertisers last month, was "printed and published for the NZIIE by Woodard Publications".

Woodard Publications is a partnership which also produces *NZ Federation of Sports Medicine* run by Stuart Flemming and John Grenville.

Grenville previously worked for REM Printing and Publishing (then known as Direct Publishing) as an ad space salesman.

NZIIE vice president Graham Hollyman said the institute had negotiated with Woodard regarding a magazine, but had not yet officially authorised a magazine to be published in its name.

The first issue of the magazine would be produced in a week or so, Grenville said.

The authorisation given by the NZIIE was a verbal understanding to put out a trial publication, he said.

At least one Auckland company got a space order for $405 for a full-page colour ad in the as-yet-unpublished magazine.

This company — feeling it has been misled about the magazine being an official NZIIE publication — has cancelled its advertising, and now wants its four-colour film positives back.

Takeover by firemen

THE Fire Brigades' Union is making plans to take over its own magazine *Firelines* from REM Printing and Publishing and ex-Percival Publishing man, Jack Challinor.

Firelines editor and a fireman, Denis Heath, said his union was tired of receiving complaints about the magazine's ad salesmen's selling tactics.

Both Heath and the union secretary, Arthur Monk, said they did not wish the union's good name to be jeopardised.

Firelines was previously published by Challinor, an ex-Percival publishing man. But Challinor has since moved his offices to those of REM. And Heath said he was not sure of the exact connection betwee Challinor and REM. He said he thought Challinor has sub-let the magazine to REM.

Heath said he thought the circulation of the magazine was about 3000 copies and advertising rates about $400 a page.

"The magazine is still registered in the name of the New Zealand Fire Service Employees' Association but it is for the Fire Brigade Union," Heath said.

The union received $175 an issue as an editorial fee. This money covered expenses largely incurred in photographic work, Heath said.

He said the strong point of the magazine was its action shots of fires.

Transport

Difficult road ahead for fuel tax advocates

by Rae Mazengarb

THE fuel tax alternative to the controversial road user charges system – said by transport operators to be far more equitable – is not as simple as first thought. And it may produce more problems than it solves.

The Road Transport Association's national council considered the concept a few weeks ago.

But council members agreed to defer a decision until they had assessed the research of an RTA member who is examining the options in Europe and the United States.

The association's long-term policy is to move toward a fuel tax system.

But executive officer Max Barclay said that option – while good in theory – posed several difficulties.

Information on the subject had been sought from libraries, oil companies, treasury, embassies and the Ministers of Transport in some 21 countries.

Barclay found that no two states appeared to have the same type of tax – nor rationale for its implementation.

"So it's difficult for us to come up with a hard and fast rule," he said.

The association urged the adoption of a fuel tax at the New Zealand Road Conference in June 1973.

Before the surfacing of the Road User Charges Bill in 1977, the RTA asked the National Road Board to consider a tax on diesel.

The board replied that this type of tax had already been considered in past years but had been rejected as "administratively complicated".

"Fuel consumption is not an equitable mechanism for recovering roading costs from transport vehicles," the board said.

But the conferences of both 1978 and 1979 directed further study of a fuel related system of tax collection.

This has been the work of the RTA's Roading and Technical Committee, – to ensure that any information and material contained in any case put to Government, was "accurate, current and pertinent."

While data collected from within New Zealand has proved to be obsolete or inexplicit, the more expansive replies from transport people overseas provided details of a range of methods of levying road user taxes.

But it had been difficult to assess the administrative requirements on a comparative basis, Barclay said.

Not only was it difficult to point to any method being superior to another, but governments, too, saw road user taxation from different points of view – mainly as part of a general fiscal policy, road wear, and/or energy conservation.

In its own consideration of the fuel related tax option, the roading and technical committee encountered problems:

• Taxes must apply to all automotive fuels, including possible future fuels. How would an equitable tax apply to diesel, various grades of petrol, LPG, CNG, methanol, ethanol, electricity and the possible blends?

• What security measures could be implemented for the farm production of ethanol, or for the industrial production of methanol?

• What allowances would be made for the 70 per cent of diesel consumed by non-road applications in New Zealand? If all fuel was taxed, what measures could be taken to ensure that only off-road fuel use received refunds? And could a system be devised which prevent tax free fuel for bulldozers going into road transport vehicles?

• The fuel tax was not easily reconcilable with the user pays principle. But could such a system allow for a different rate of tax on petrol used for big trucks as against that used in small trucks from trailers? How would you get an equitable volume of fuel tax from trailers?

• If a system was introduced for all automotive fuels, could the public be assured that the taxes collected would go to the National Roads Board and not be used for general purposes?

But transport sources point to the widespread evasion of the road user charges by means of tampering with hubodometers, removing them on unpoliced highways, fitting them off-centre so that they under-read), and to claims by some operators that the hefty charges are sending them out of business.

The advantages of a fuel tax greatly outweigh the disadvantages, they say.

Not only would there be a reduction in evasion of tax, but a tax on fuel would encourage fleet modifications and improved efficiency in the industry – not to mention fuel conservation – and administration costs would be reduced, since the precedent for petroleum fuel tax collection is already established.

Support for a fuel tax comes from the West Australian Road Transport Association, whose executive director wrote to the RTA in April.

A state fuel levy was introduced there in July last year, replacing the former road maintenance tax legislation.

"The previous method of collecting revenue (strict records of all journeys, monthly returns, high administrative costs, opportunities for tax evasion) was strongly opposed, and we felt that the only fair method of paying for the additional wear and tear on roads was 'through bowser'," the letter read.

"The State Govern[ment] discussed their proposals [with] us and we agreed to sup[port] them – and today, the s[ystem] of road tax . . . is very [...] raised by our members".

The letter pointed out [the] fuel levy – collected [at] wholesale level by the [oil] companies – "avoids [the] complicated system of [...] weight etc as proposed in [New] Zealand".

But RTA council mem[bers] are not yet convinced [they] have a case to put before Government.

One industry so[urce] claimed the major pro[blem] with the road user char[ges] system was that many [opera]tors were not good bus[iness]men.

They were too busy [...] cutting one another to p[...] themselves with reaso[nable] margins, he said.

In the meantime, it is [un]derstood the authorities [are] looking at a new Sw[...] hubodometer which – [...] the ones in use here – [is] tamper-proof.

The Ministry of Works [and] Development, which [admin]isters the system, is working toward strea[mlining] the road user charge [by] using a computerised [ap]plication.

Road Transport As[socia]tion executives say the[y,] while looking to altern[atives] are also trying to ire[n] wrinkles out of the cu[rrent] scheme.

Several examples

FUEL taxes are common to many countries as a means to levy heavy vehicle charges.

But in many cases a fuel tax is only part of a package of taxes.

One factor which has emerged from the RTA's investigations is that changes in roading taxation policies are common and that new systems are continually being introduced.

Canada has licence and permit fees as well as a fuel tax.

All Federal levies there, are imposed on manufacturers and importers of petroleum products at the time of sale to retailers.

Provincial levies are also collected by the oil companies at point of sale to retailers.

The price of diesel is varied by the imposition of multi-various levies, but only one state allows for refunds for diesel used in off-highway or agricultural applications.

Sweden has a composite scheme which incorporates the use of a hubodometer. Total auto taxes are derived from some seven sources, with fuel tax accounting for some 43 per cent of the total revenue raised.

The fuel tax is levied on a per litre basis and the balance is calculated on the type of vehicle, its axle configuration and weight. Refunds for off-highway use are calculated on application.

But information received by the RTA indicates the diesel tax is considered to be overly complex by both vehicle owners and the civil service.

Tourism

NZI flying high in Mt Cook's slipstream

Christchurch Correspondent

IT has taken long into 1980 for one of last year's closest commercial secrets to emerge . . . the emergence of Mount Cook Group's "mystery backer" from the 1979 Allied press sortie with an even bigger endorsement for the Christchurch-based tourist company.

New Zealand Insurance, is to take up a placement of 1,010,848 $1 MCG shares, if a meeting of Mt Cook shareholders agrees on May 21 (and it is a very beneficial arrangement). NZI was also the company prepared to underwrite Mt Cook shares at a floor price during the bid for the ailing Dunedin evening newspaper company.

Indeed, it appears that NZI has been very impressed with the potential of Mt Cook for at least two years and has long also done its homework on future profitability prospects.

Mt Cook welcomes NZI's involvement and views the ultimate 20 per cent shareholding (after adding NZI's existing stake in MCG) as a satisfactory deal on the obvious understanding that it would not be used as the platform for a complete bid.

Certainly the participation of NZI will yield Mt Cook additional stability from the turbulence of seasonal financing requirements.

Mt Cook is about to make a $490,000 debenture conversion and must also pay out about $450,000 in bonus shares related to that conversion. Following these moves, the placement will take Mt Cook total issued capital to $6,224,911.

Mt Cook is a capital-intensive company with a large fleet of aircraft from the aggressive airline's Hawker-Siddley aircraft to the highly popular ski-planes flying the Mt Cook National Park, and tour and scheduled service coaches.

Tax policies fail to recognise the high costs of replacing and expanding highly technical plant such as aircraft, and obviously the group has found it tough to retain sufficient funds for the necessary high level of capital spending.

The answer over the past several years has been to fall back on the increasingly expensive short-term money-market to cover seasonal liquidity problems and leasing procedures to finance new assets.

The result is that high interest rates further depress the amount of cash generated as retained profits.

Such problems must have sounded gloomily familiar to financial circles. The announcement outlining these factors came not too long after Mosgiel's plunge in the wake of interest rate burdens, among other problems.

So the Mt Cook share price eased marginally in reaction . . . but on the basis of the merits for the NZI interest it may have been an over-reaction.

Sir Henry Wigley . . . possible shore business

By broadening its share capital base and taking the injection of much-needed additional equity into the business, there are several bullish points.

The premium placement will bring in $1.5 million and the issue at $1.50 is at a premium considerably higher than could have been generated by a rights issue.

The premium money portion itself could also be the source of future tax-free dividends.

Funds of the amount injected by NZI also mean reduction of interest charges on short-term money-market borrowings. Sources said that profitability could rise $200,000 on that score alone.

NZI's involvement also coincides with a major marketing push by the tourist company. To that end, NZI's extensive overseas network of offices should aid Mt Cook by furnishing market trend intelligence and local know-how in new destinations in which Mt Cook will be promoting New Zealand holidays.

For example, from June 1, Mt Cook will open its new Tokyo office. That office might well dovetail into NZI offices elsewhere in Asia in terms of marketing.

Japan Air Lines starts flying into Auckland from July and Mt Cook expects Japanese tourist inflow to potentially double. It is also doubling staff at its Sydney sales office, assessing British marketing and engaged in sales missions to the Continent. And there's more to market.

With a spread of ski-fields promoted (not just Coronet Peak), the company is enjoying heavy demand with Ski Fli bookings back to 1977 peak levels after a two-year lull.

Overall, Mt Cook is increasing market share, with airline passenger loadings in the 10 months to March 31 up 17 per cent, and the landline operations showing 6.6 per cent growth in the South Island and 24 per cent in the North Island.

This year the company put a $400,000 catamaran on to the water in the Bay of Islands and apparently has virtually sunk the opposition.

Its sharply competitive packages on the main airline included the popular Air Bridge concept last year and this year the airline is experiencing heavy interest in discounted multi-flight pre-travel sales especially to companies making several trips a year between the two islands.

On some flights, meals and wine amply offset the slower-than-jet travel.

Attention is now focussing on the development of the new Remarkables ski-field which could see skiing from as early as 1982.

Mt Cook will be chasing volume business by putting in a road at the forecast cost of about $1 million.

Offshore business is the goal these days with a possibly immense fillip coming in terms of export incentives for the lively company run by chairman Sir Henry Wigley and managing director Philip Phillips.

Ancillary licences pave path to abuse of alcohol

INVERCARGILL MP Norman Jones was preaching to the converted last month when he told the New Zealand Licensing Trusts Association that the parliamentary select committee on ancillary licencing was playing with fire.

Licensing trusts face one of the greatest threats to their continued viability in the recommendations of the committee which, if given the go-ahead by a conscience vote in Parliament, will open the way to a club drinking system which could have far-reaching effects on the drinking habits of many New Zealanders.

Jones said that, if carried into law, the recommendations would "make the country's booze problems infinitely worse."

It is clear that if Parliament, ignored the recommendations, it would be going against one of the most powerful lobby's in the country – the sportspeople.

The select committee had completely ignored all submissions except those from the sporting organisations, he told 230 delegates in Invercargill.

If one quarter of the committee's recommendations became law New Zealand would be in "deep trouble" with the continuing use and abuse of alcohol.

Jones said that the issue should be decided by a party vote rather than a free conscience one, and added that most MPs would not have read the report. If they had, most would not appreciate the effect of the 35 recommendations it contained.

Members of Parliament on a free vote were completely unpredictable, and in this issue many were going to be lobbied by the powerful sports bodies, he said.

Parties should have the political courage to bring down common sense liquor laws as a Government, Jones said.

He told the delegates that he had sat briefly on the select committee. After reading a variety of submissions, and the report, he was not surprised that liquor trade interests, the churches, and the hotel workers union were against any further liberalisation of ancillary licences.

"Before I, as a member of Parliament, use my non-party vote to change the existing laws I want to be quite certain I'm not replacing them with patterns of social behaviour which I believe will be infinitely worse than what we already have.

"I'm not impressed at all by the hypocricy of the arguments of the sporting bodies that they need older, more respectable, and responsible members of the community to come into their clubrooms and set an example, in handling and consuming liquor, to the younger club members.

"If we take that spurious argument to the extreme all the responsible, respectable drinkers must be in the clubs and all the boozers and deadbeats should drink in the pubs".

Jones said that in New Zealand there were 690 licenced hotels, 226 licenced restaurants, 360 chartered clubs, 376 wine resellers, 329 bring-your-own restaurants, 379 tavern licences, 92 tourist hotel keeper licences, and 771 general ancillary licences. A total of 3394 meant that there were enough outlets for a population which last year consumed, per head 127 litres of beer, 11 litres of wine, and 3.5 litres of spirits.

Last year's $27 million combined alcohol-tobacco tax all went on the health vote which was over $900 million.

He said that no one would be barred from applying for an ancillary licence under the proposed changes. The interpretation could let in over 300 trade unions and 219 employers unions; 214 local bodies, 428 *ad hoc* bodies, 1393 reserves and domain boards, and 150,702 registered incorporated societies.

The combined assets of Auckland rugby clubs, according to Jones, were conservatively estimated at over $5 million, which meant that they were "big business".

"Liquor sales and liquor consumption is not the ancillary activity at some sporting clubs–it is their main activity".

The police would suffer if changes were made, because they would not be able to enforce bad liquor laws, he said.

Earlier in the day the conference had passed a strong remit calling on Justice Minister Jim McLay to resist the committee's recommendations, which, the remit said, would:

- Increase the availability of liquor to minors;
- Authorise some outlets to provide Sunday sales while denying the liquor industry the same privilege;
- Relax health, fire, and safety regulations which now applied to ancillary or licence holders;
- Encourage drinking in clubs as a major source of revenue without paying taxation or tavern levies.

The delegates main concern was further inroads into potential trust income as broader ancillary licence requirements would make

But licencing trusts, like most local bodies, are feeling the financial squeeze.

B grade actor on the tracks to become a star

by Michael Hirschfeld

LARGE numbers of Americans used to say that Ronald Reagan was dull, boring, reactionary and unelectable. They remember him as a modest B grade movie actor who sold fridges on TV, and who in his one bright act campaigned vigorously for a Democratic candidate against Richard Nixon.

Now many of these same people are predicting that Ronald Reagan will be the next President of the United States.

Things change quickly in America. A few weeks ago the definition of a pessimist was someone who thought Reagan could be elected. Now the definition of a realist is someone who thinks Reagan will be elected.

Six weeks ago bets were being offered on the basis that Reagan could win no more than a maximum of five to 10 states. These wagers have dried up and the latest poll of democratic state chiefs shows Carter winning by only the narrowest margins.

The latest nationwide opinion polls have Reagan comfortably ahead of Carter, though more than half those polled are unhappy at the prospect of a Carter/Reagan choice.

This turn-around has nothing to do with anything that Governor Reagan has said or done. In fact Reagan has only one basic, cliche-riddled speech which is now very old and very well known.

It is, as the primary results continue to show, what the Republican voters want to hear, and it is attracting a significant number of the economically squeezed blue-collar lower-middle-class Democrats.

Addressing the leading newspaper editors in Washington recently (they pulled all the remaining candidates, including Carter), Reagan stuck doggedly to his well known text, without trying to add any new ideas or insights, which might impress this influential group.

Only one-presidential candidate spoke to this gathering – Henry Kissinger.

It is a sad comment on the standard of the Presidential candidates that his was considered the only interesting and noteworthy speech. This dark mood is caught in the tenor of another current political joke.

A gunman holds up a lone voter on his way to the polls and says: "Who are you voting for, Carter or Reagan?" The voter says: "Shoot me."

So why the sudden rush of feeling for Reagan? In fact it may not be a movement to or for anything, but rather a reflection of the rapidly growing disillusionment of Americans with the politics they are offered.

Ted Kennedy . . . possible convention revolt

Ronald Reagan . . . cliche-riddled speech

While the very first primaries showed almost unprecedented voter turnouts, the more recent polls have seen a dramatic slump in interest.

This year is likely to see a President of the United States elected by less than 20 per cent of Americans of voting age. Only Republican defector John Anderson's entry as an independent shows some prospect of generating excitement and lifting the vote.

Anderson's third party strategy relies on the mushrooming of this discontent, which would open the way for his independent challenge to the White House.

What we may be about to see is a landslide from under Carter's feet, depriving him of his remaining political credibility.

While Americans have remained loyal to Carter during the six months of external tension, this loyalty is as secure as a house of cards. All the polls show that individual evaluations of Carter which give him a low rating on leadership and ability, would, if translated into voting behaviour, leave him struggling way behind Kennedy.

This is, of course, what the polls showed before Kennedy entered the presidential race.

George Bush's latest knocking joke about Carter goes: "Why would people rather have a beer than vote for President Carter?" – "Because at least a beer has a head on it."

Two issues, foreign policy and domestic economics, dominate the Presidential race.

When the latter is aired, it is hard to find anyone defending the President. Suddenly everyone has woken up to the coming recession. Business profits, apart from those in the oil industry, are down, the oil industry resents the windfall profits tax, the automobile, steel, lumber and building industries are in steep decline, and unemployment and below inflation settlements are creating tension in the trade unions.

These issues leave both Kennedy and Reagan running well ahead of the President.

So while the domestic outlook can only worsen, Carter must rely on the outcome of his foreign adventures to bolster his re-election chances.

His two problems are that the outcome of either the Iranian or the Afghanistan confrontations are seemingly outside the control of the changing policy initiatives that emanate from the White House.

The unco-ordinated policies that emerge intermittently from both Tehran/Qum and Washington, share a certain erratic and immature similarity. It is hard to see progress in Afghanistan, and more people are predicting failure in the Middle East than success (though they were proved wrong a year ago.)

Carter may emerge from one of the quagmires with a major success that will allow him to leave his Washington Rose Garden and face the country triumphant. But seasoned foreign policy observers see this as resulting from the intervention of the gods; not as a consequence of any coherent policy.

At this point one begins to see the logic behind Kennedy's decision to remain in the Presidential race until the Democratic Convention.

Though by now he has no hope of winning a majority of committed delegates, a winning scenario can still be conjured up. The discontent stirred up by inflation, high interest and recession, by July would be deeply troubling many Democrats, with all the blame being directed at Carter.

If Carter's foreign policy strategy is in tatters by July, then Carter may be so discredited and isolated as to be unelectable.

Will he fight on as he promised last year or – like President Johnson in 1968 – will he give way and withdraw?

This seems unlikely but political parties don't like backing candidates perceived as guaranteed losers.

In such a situation, Kennedy's backers believe a convention revolt may occur, and even though Carter may have an elected delegate majority, their loyalty may waver.

This is obviously a long shot strategy. But it explains why many Americans still hope for an alternative to the lacklustre prospect of a Carter/Reagan election.

Special feature

The best-laid plans of mice: the methos (a critique of the Government's fuel policy)

by Erich Geiringer

THE second part of a three-part series in which Dr Erich Geiringer challenges the thinking behind the Government's transport fuels policy.

TRUE energy projects come in two categories: those designed to cut us in on the oil deal, and those designed to take us out of the oil trap.

The former are very tricky and best avoided — but the project which has pre-empted our planning and will eat into our resources is unfortunately in this category. It requires the use of natural gas as the raw material to produce methanol which in turn serves as a feed stock for synthetic petrol or is used directly as a substitute motor fuel.

These proposals are supposed to help us with our fuel bill and with our fuel supply.

As any child can tell you, if you replace with your own stuff 30 per cent of the petrol you would otherwise import from abroad your petrol bill will drop by 30 per cent.

But the REAL price of oil has been rising by about 20 per cent every year for the last 10 years — and will continue to do so for some years. Thus there will be no REAL reduction in our oil bill as the result of producing methanol. The 30 per cent savings envisaged by a static model will be swallowed up by oil price dynamics long before the methanol becomes available.

The REAL financial drain on our economy occasioned by the oil bill will be bigger when the methanol plan comes to fruition. This is what happens to people who waste time and effort in building ladders which are too short to get them over the top.

We did the same thing once before, when we put the first 15 per cent of our "independence" into place.

In 1973, New Zealand imported 97 per cent of all the oil she used. After the Oil Shock we started burning off natural gas at a frantic rate to get a little condensate to substitute for imported oil.

We succeeded to the extent of replacing 15 per cent of our imports by native condensate, but neither our bill nor our economic condition nor our inflation rate have improved as a result. We are deeper in trouble now than we were when we imported 97 per cent of our oil.

But surely, they will say, even you can see that without this condensate our oil bill would be 15 per cent bigger. This is an argument which begs many questions.

It is based on the assumption that we *must* have that extra 15 per cent and could not, in eight long years, have implemented policies to enable us to do without it. It also amounts to an assertion that after using a treatment for eight years under which the patient has deteriorated, the best we can do is to replace it for the next five years with a treatment which will be equally ineffective in arresting the downhill course.

If all the methanol dreams came true, we will still import 60 per cent of the amount we are importing now. Therefore, after investing at least $700 million in capital costs and God knows how much in natural gas and in running costs, we shall be paying considerably more in real terms for imported oil than we are paying now, unless the annual increase in the real price of oil is well below 10 per cent.

Some hope. We are, once again, putting our eggs (to coin a phrase) on a short ladder.

And now for the good news. If you are willing to accept Ministry of Energy forecasts you might reach a more hopeful conclusion.

In a publication called *Energy Strategy '79* issued by Energy Minister Bill Birch in December 1979, the Ministry of Energy estimates that in the five years needed to hatch our synthetic petrol egg, real oil prices will have risen by only 55 per cent, to $28 for a barrel of Saudi Arabian Light. That estimate, which they modestly declare is, "for planning purposes only", is based on a price trajectory (Graph No. 1).

Starting with the price of Saudi Arabian light for 1979 of $18 this ends with a price for the same item in the year 2000 of $33.

If this benign trajectory can be relied on, it means that in 1985, while we will have saved nothing on our fuel bill, the synthetic petrol will enable us to bring our real oil bill, for a fleeting moment, down to what it is now.

There is just one little thing which makes one ever so slightly sceptical about this forecast: it is wildly out on the only point of the curve that can be verified — the cost of one barrel of light Saudi Arabian oil in 1979.

By the end of 1979, and well before the Ministry of Energy's estimate was published, the price of one barrel of Saudi light had already gone up from $18 to $24.

THERE is just one little thing which makes one ever so slightly sceptical about the Ministry of Energy's oil price forecast — it is wildly out on the only point of the curve that can be verified

What are we to make of it? Does it mean that the Arabs have already used up 60 per cent of the rise to which they are entitled over the next five years, and that, relying on the wisdom of the Ministry of Energy, all we have to look forward to is a merely 4 per cent annual increase in the price of oil for the next five years?

In that case we should declare a public holiday because the oil crisis, to all intents and purposes, is over.

Does it mean that instead of a 55 per cent increase by 1985 we shall have an 88 per cent increase or more?

Or does it mean (as I think) that some of the boys who used to forecast electricity demand for Eric Holland in the 70s are now forecasting oil prices for Bill Birch in the 80s?

At the end of the methanol exercise we shall be paying more for our oil than we did before, but our planners console themselves, no doubt, with the thought that it will give us a relative advantage over competitors who having no meth would have to pay even more.

This could be true, but only if these competitors, have energy policies which are even more stupid than ours, if they don't happen to be oil producers, if they are less able to increase productivity than we are and if they are less willing to take a slight drop in living standards than we are to maintain their competitiveness.

I wonder who they could be?

Of course, if oil were a commodity like others, we could say that our synthetic fuels (at best, one ten-thousandth of the world's supply) by increasing the total supply of transport fuel will diminish the rate of increase of oil prices.

Unfortunately natural oil no longer obeys these simple laws of the market. Even if the natural gas people all over the world should go into the methanol business; and even if the oil sheiks who flare off most of their gas to heat the desert air, should decide to make it into synthetic petrol, the rate of increase of oil prices will not be allowed to be affected.

The trap has a movable bottom.(1)

Saudi Arabia, Iran, Venezuela, Lybia, Kuwait, Mexico and even dear old Britain, have all declared their intention to keep production down as much as feasible. They would be very foolish, indeed, to do otherwise, since their prosperity and political power depend on extending the oil resource.

Should the production of synthetics increase faster than total demand, the production of natural oil will be decreased to take up the slack. The price will rise correspondingly, and by as much as the market can bear.

The real oil price, for many years to come, will be independent of the amount of synthetic fuel thrown into the world pool.

For oil companies who involve themselves in these ventures on both sides of the counter, this is a neat arrangement. Their profit margins will never be dented and an uninterrupted flow of fabulous profits will waft them from the natural oil era straight into a synthetic future.

When the wells run dry, there they will be — unharmed, unruffled and 10 times as rich.

As for their customers, these synthetic ventures cannot save them anything. On the contrary, taking into account the costs of setting up these enterprises, they will add to our real fuel bill.

To make doubly sure the methanol fling should be a means of escaping from the oil trap, we are being urged to use the methanol as an "extender" (that is, you mix it with petrol). This would ensure that, regardless of the price of oil, we would continue to buy it, because we would have locked ourselves into a system of which petrol is an integral part.

Once the infra-structure for methanol mixtures has been erected, the inertia of the motor industry, the oil companies and the regulatory authorities would see to it that any abandonment of such a system would be slow and painful.

This consideration applies with double force to the synthetic petrol derived from methanol. The expense and waste of resource would be greater and the commitment to the use of petrol correspondingly deeper.

EVEN if the puerile expectations of Bill Birch's department of a mere 55 per cent rise in real oil prices by 1985 are fulfilled, New Zealand by 1985 would still not have reduced its real oil bill

The formula by which we judge the financial efficiency of our energy plans is simple: can it outstrip the rate of increase in the real price of oil?

The Government promises that the Mobil plant "by 1985" will produce "30 per cent of our petrol requirements" — or one-sixth of our total oil requirement.

This is sometimes put even more impressively by saying that "by 1985" we shall be 50 per cent independent of imported oil.

This figure is arrived at by adding to the one-third of petrol the 15 per cent of dependence which we already enjoy due to our condensate, plus any other little bits and pieces which we hope to have put into place "by 1985" (CNG, LPG, etc).

Roughly speaking, the Government hopes that "by 1985" circa 17 per cent of our oil use will be catered for by native condensate, 17 per cent by synthetic petrol from the Mobil plant and 17 per cent by CNG, LPG and what have you.

Accepting these predictions at face value, they promise:

- A 35 per cent foreign exchange saving "by 1985" if the real price of imported oil remains unchanged;
- And an increase in the financial drain of the oil import bill if the real price has risen by more than 50 per cent "by 1985".

What do you think?

To give you a basis for a reasonable forecast, the CIA thinks that world demand for oil will approach production capacity *by the early 1980s* and will substantially exceed capacity *by 1985*.

Our Government, which likes to rely on the CIA in other matters, apparently has taken no account of the implications of this forecast, which duplicates those derived from other careful surveys.

Even if the puerile expectations of Bill Birch's department of a mere 55 per cent rise in real oil prices by 1985 are fulfilled, New Zealand by 1985 would still not have reduced its real oil bill — a stand-still exercise which would have consumed tremendous amounts of energy, credibility, resource, capital and never-to-be-recaptured opportunity, not to mention the cost of the synthetic petrol which would have to be paid for in addition (Graph No. 2).

In short, the methanol and synthetic oil project which has succeeded in hypnotising the news media and even the Opposition will leave New Zealand worse off economically and financially in the mid-1980s than we are now.

By 1985, in 1985 or after 1985

In the public relations exercise leading up to the Alberta and Mobil agreements, Barry Brill and Bill Birch have lured us with the prospect of "one-third of our petrol needs" or "half of our fuel imports" being replaced by homegrown product "by 1985". But now that the agreements have been signed it is becoming clear that the first synthetic petrol will not flow until 1985, if then.

WITH Rob Muldoon in charge of public relations with the FOL one would be foolhardy, indeed, to put money on 1985 as the date on which the benefits of the synthetic petrol project will begin to flow into our economy

If we consult *Energy Strategy* issued by Birch's department we get an even more sober estimate of fuel savings of *up to 50 per cent by 1987.*

This sounds more realistic, particularly when taken in conjunction with Jim Bolger's statement that "construction timetables for the energy programme are tight and without the fullest co-operation of the trade union movement are unlikely to be met." (*Evening Post*, March 28 1980).

With Rob Muldoon in charge of public relations with the FOL one would be foolhardy, indeed, to put money on 1985 as the date on which the benefits of the synthetic petrol project will begin to flow into our economy.

Even if these probabilities are disregarded, it has become clear that the 20 per cent saving on imports promised by the synthetic petrol project will not materialise *before* 1985. The only saving on our foreign oil bill between now and 1985 therefore will come from an indeterminate increase in available condensate, plus the haphazardly growing use of CNG and LPG which are hoped by 1985 to make up, together with the synthetic petrol, if and when it becomes available, our 50 per cent self sufficiency.

As far as LPG is concerned, anyone who listened to the siren song of our policy-makers is surely by now cursing the day he did so.

Production and supply are in complete disarray, chronic shortages are forecast, and we shall either have to *import* the stuff from Australia or tell the mugs who switched over to its use to go back on petrol before their businesses grind to a halt.

Orderly progress towards large-scale conversion to CNG, similarly, is nowhere in sight.

If official expectations of 17 per cent of our total oil use being covered by 1985 by the increased use of condensate, LPG and CNG should nevertheless be fulfilled, the position by 1985 will be as follows.

On the very moderate assumption of a gradual increase in oil prices of 66 per cent over these years, our total foreign oil bill for these five years would be $9500 million at present levels of import.

But a total fulfillment of LPG, CNG and condensate hopes would reduce this by 20 per cent to $7600 million.

It is only after this amount (about twice our annual export income) has been spent that we would be able to look forward to our synthetic petrol savings.

When it is remembered that it would take only $750 million to convert every car in New Zealand to CNG, the grotesque wastefulness and inadequacy of this energy plan becomes obvious.

Marsden

Another pseudo-energy project which is merely wasting money and time, is the much-vaunted expansion of the Marsden refinery.

There was a time, in the good old days, when we could have saved a lot of money had we been able to refine oil instead of paying others to do it for us.

But at that time the National Government deliberately axed the plans to expand Marsden facilities. Now, when our priority should be to get out of oil, expanding the refinery only puts us deeper into the trap because such a costly acquisition of refining potential is no good unless we keep on buying crude oil.

As with methanol, what is seen us a liberation is really a means of getting more securely hooked.

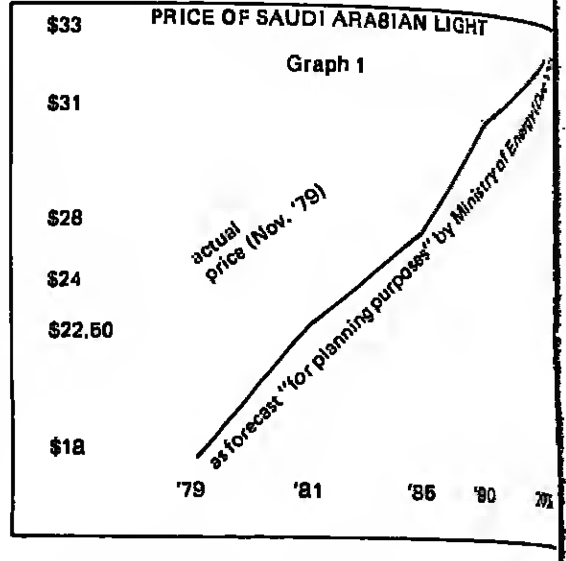
The $500 million which this project will cost (at least) are supposed to save us $200 million a year in foreign exchange, according to Brill. But this is pie in the sky, which takes no account of the dynamics of oil price fixing in the 1980s.

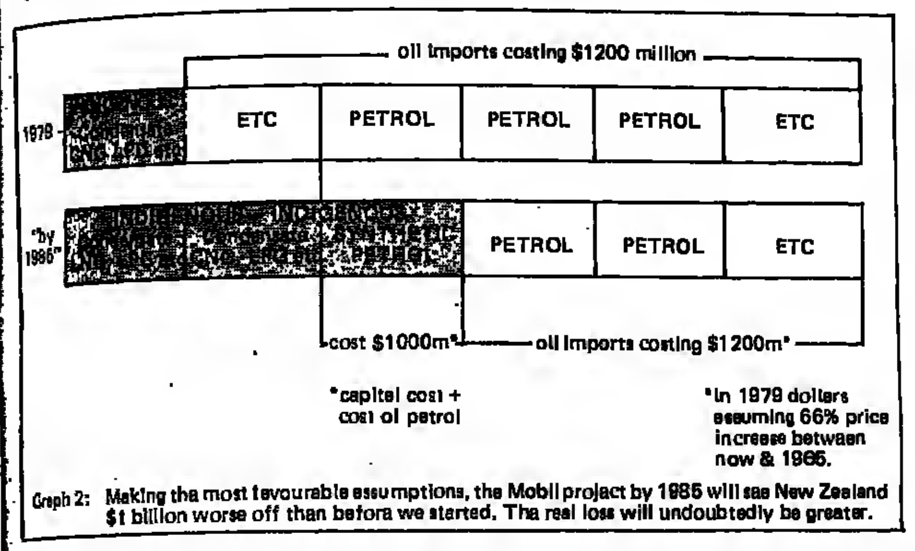
The price of crude oil will simply go up by as much as the market will bear and there will be no *discernible* (2) savings. But things will probably be worse. The producers of crude have embarked on giant refinery projects of their own and have given notice that customers will have to take their refined product if they want some crude. This is the logical complement of their depletion policies.

They have (as Muldoon keeps telling us) more money than they know what to do with, they want to conserve

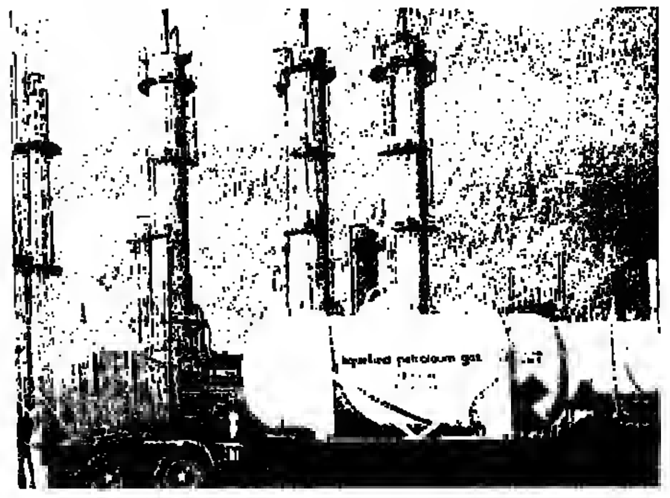
Continued on Page 28

Do the boys who used to forecast electricity demand for Eric Holland (left) in the 70s now forecast oil prices for Bill Birch (right) in the 80s?





Graph 2: Making the most favourable assumptions, the Mobil project by 1986 will see New Zealand $1 billion worse off than before we started. The real loss will undoubtedly be greater.



LPG . . . production and supply in disarray

(1) At time of writing Kuwait and Lybia have announced cuts in production by 25 and 17 per cent respectively. By 1985 not even Saudi Arabia will be able to counteract these depletion policies, even if it had a mind to. Yet the Ministry of Energy reckons that "prices may level in the medium term as development of oil substitutes ... and reduced world demand" which merely shows that they still believe in Santa Claus.

(2) The gentle reader may have noticed that official plans are never based on real savings of real money — that is, on paying less — but on imagined savings, or on paying more and making out that one would have paid still more but for one's clever $500 million project. Keep on saving like that and you are bankrupt in no time.

Special features

From Page 25

their oil and they would like their profits to stay healthy.

What could be more logical than to add a little value to their products and *insisting that their customers take the refined product.*

Would we sell live sheep if there was a world shortage of mutton?

By 1985 we shall have to buy refined oil or go without. To assume otherwise is to think that the Arabs will pour money into refineries *then* allow customers to destroy that investment by insisting on buying crude.

It is therefore somewhat naive of Muldoon to tell the South Island Rotarians that the Marsden expansion will enable us to import crude oil "*only*". There is a slight difference between will and might — and in this case the difference could be as much as the total cost of the Marsden expansion.

* * *

Treadmill factor

TALKING of refinement, it is worth mentioning that the oiltrap also has a treadmill mechanism. It works like this:

In 1970, one ton of oil cost us two lamb carcases. In 1980 it costs us 15 lamb carcases.

In 1985 it will cost us — even according to Birch's boys — at least 22 lamb carcases.

To pay our oil bill, we have therefore to increase production of lambs or what have you.

But we cannot significantly increase production without importing more oil or more oil-based goods. In other words, buying oil forces us to buy even more oil.

This treadmill factor is another reason why speed is of the essence in escaping from the oil trap.

* * *

The time limit

LET us be nice. Let us accept that the synthetic fuel plan will hit the target spot-on and dead on time. Some time in 1985 we shall have to buy only 1.6 million tons of transport fuel a year while an equivalent amount will be provided from our own resources.

What would be our situation then? And what would be our further options?

(1) The Oil Bill

Our oil bill (in real terms) will be at least as big as it is now, on top of which we shall have to pay the considerable cost of the synthetic petrol project and the synthetic petrol. Therefore there will be a greater transport fuel drain on our economy than there is now.

(2) The Economy

By 1985 our economy will be in poor shape. Freight costs will swallow an ever greater proportion of our export earnings: increased production will be hampered by increasing flow on costs; many of our customers will have had to tighten their belts because of a continued oilfueled recession and our suppliers will demand exorbitant prices.

The economy will also be destabilised because of continued high inflation and unemployment.

Inflation psychology will dominate public and private thinking because the children of the first Muldoon inflation of 1976 will have grown up and be making the day-to-day decisions in households and industry. The commitment of vast chunks of our energy reserves to energy-intensive enterprises will severely limit our flexibility in the field of energy planning.

Moreover, with the economy in such poor shape, the only way in which Governments will be able to get themselves re-elected will be by selling more New Zealand resource at whatever price they can get to the oil interests, the only ones with any spare cash left at that moment in the history of Western Industrialism.

(3) Oil Supply

By 1985 the ability and inclination of oil producers to adjust production to world demand will be severely reduced, there will be real difficulties with supply and in our efforts to obtain oil we shall be pitted against the competition of more powerful oil-hungry nations. Petrol rationing will have to be introduced to prevent economic chaos but we shall have lost the opportunity to use it as a tool towards rapid energy restructuring.

The electricity and gas resource which in the 1970s, and even now, could have been used to get us out of the trap unscathed will be largely committed to idiot ventures and therefore unavailable.

To free up some of this fuel potential, the Birches and Brills of 1985 will bend their ears to the nuclear power salesmen.

Marsden . . . wasteful expansion?

Certainly, being able to supply half our transport fuel from indigenous resources would be a help but it would not be enough to prevent a disastrous oil-shortage recession from being superimposed on the oil-price recession.

What will we do? Move half the commuters nearer their place of work? Shift half the road transport load on to non-existent rail facilities? Replace half the tractors with horses? Build another synthetic fuel plant?

This is 1985 and the crunch is on. All these and similar projects take years to implement.

A 50 per cent solution, even if it were implemented on time would be too little and too late to save New Zealand by 1985 from a disastrous depression.

(4) Political Situation

By 1985 the world will be a powder keg. As the result of the economic difficulties created by the oil crisis the political systems of many countries will have become unstable with civil wars, internal dissension, terrorism, erratic and unpredictable economic policies.

The situation will be ripe for an oil war or oil wars as governments look to external intervention as a means to ease supply problems or to distract disaffected populations.

For example, by 1985 Russia will have become a net importer of oil. I leave you to work out the possible geopolitical implications of this for yourself.

By 1985, no country which depends to a significant extent on imported oil will be able to escape the political complications of this dependency.

Just remember the delicate balancing acts we have to perform between revolutionary Iran and our friend and master, the United States, and you will have a pale idea of what it will be like in 1985.

Indeed, the variations and permutations of the internal and external dangers and complications that oil nations will face in 1985 (using that term to include both those who have it and those who want it) are so incalculable that no-one can know what energy strategies will be open to us in the second half of this decade.

Honest planners [illegible] qualify their proposals for [illegible] mid-80s and later by [illegible] proviso "unless someth[ing] unforeseen happens" [fol]lowed by the prediction [that] something unforeseen [will] happen.

What we need, therefore [is] a decisive *short-term strategy*.

There is a strict time li[mit if] we want to get out of the [oil] trap with our independ[ence], our political stability, [our] democratic freedoms and [our] environment relatively int[act]. If 1985 still finds us in the [trap] much or all of this will go [for a] Burton.

Using natural gas to ma[ke] methanol to make synthe[tic] petrol to replace one-third [of our] imports by 1985 is:

- Wasteful because [in] changing gas to petrol [we] lose half of its energy;
- Costly, because synthe[tic] petrol to replace one-third [of] imports by 1985 is:
- Too slow because it [takes] years for these projects [to] come "on stream" (a [lovely] phrase dreamt up no doubt [by] some prosaic power p[lan]ner);
- And, most fatally, [the] projects are too small. [Su]ing less than virtual [self-]sufficiency can save N[ew] Zealand by 1985. To ac[hieve] the synthetic way [would] require three times the [size of] plant at present propo[sed]. This of course would ma[ke] its drawbacks and uncer[tain]ties intolerably.

Therefore, the Government's energy plan is counter-productive from the point of view of the fuel bill and growth and from the point of view of supply.

Cui bono

So, what the hell is g[oing] on? Why can the gov[ernment], towncouncils which were [...] Governments never get [their] sums right?

Why do we seem [con]demned forever to lag [be]hind [...] behind rising oil prices?

Having been let down [by] their departmental advisers [in] the mid-1970s and escaped [by] a narrow squeak the [...] of the nuclear power [sta]tion, a shocked Government suddenly made aware [by] the fall of the Shah that the crisis was for real, has thrown itself into the arms of "private" enterprise.

The policies, strategies, projects, new technologies, timetables to make us [less] dependent of imported oil come nowadays straight from the horse's mouth, from the worlds' greatest experts on imported oil — who else but the oil importers themselves.

BP, Shell, Hunt, Mobil [...] all have been eager to help and their advice has been gratefully received by a [...] mouthed Government.

Aren't they nice, — aren't our Government lucky?

Asking the oil companies to help us with our fuel problem is like a junkie asking his pusher to help him kick the habit.

Sure, they have the expertise and are very interested in substitute fuels — but they don't want anything to cut short the natural oil bonanza.

Profits have never been better and they would not only be foolish but, indeed, culpable if they took deliberate action to reduce these profits.(3)

Oil merchants are in the business of selling oil. That is where their investment, expertise, livelihood and duty to their shareholders lies.

If they play their cards right they are in for another 20 years of unprecedented profits and business opportunities. If they don't, their big empires could come crashing about their ears.

They have a tremendous stake to protect and with dwindling supplies, increased cost of new drillings, gradual exclusion from Middle East oil, increased competition in refining, marketing and shipping from the oil producers, they face some real difficulties.

If they are investing some of their windfall in alternatives it is to control them and to "phase them in" with the least disturbance to future oil profits: They concentrate on alternatives which can form a base for a new sellers' market when a natural oil resource has been milked dry.

Any other policy by oil companies would be crazy.

They are not and can not be interested in alternative developments which could cause a rapid drop in oil dependency. They will suppress them, fight them and use every means of persuasion and of raw economic power to see that they are not introduced.

Similar considerations apply to the motor car industry, which is tooled up for the 80s and determined to slow down the pace of alternative technologies to minimise damage to their profit structure.

Any project which would lower oil prices is bad for Mobil — that is all you have to know. After that you don't have to be an Adam Smith to know that the interests of Mobil and those of New Zealand don't mix.

How little our Government is prepared to face up to these [...] is revealed by Brill's comment: "*where Detroit goes, in this respect, we have to follow*" (*Evening Post*, March 27, 1980). That remark perhaps is destined to replace the old joke about General Motors and the United States and explains why we are so determined to choke off research into electric cars.

That Governments apparently concerned to lead their people out of the oil trap should be in the pocket of the very people whose self-interest demands that they should remain in the trap for as long as possible — the oil drillers, oil producers and oil sellers — is not too difficult to understand when the wealth and power of these commercial giants is contrasted with the expertise and power of a tuppenny-ha'penny nation like New Zealand.

The market power of the big oil companies can be very persuasive, particularly with Governments who are hooked on soft political options, which is what the oil pushers are offering.

Moreover, now that the Government has decided to replace a policy of borrowing by one of inviting foreign investment, they have lost an important degree of freedom in the choice of energy projects.

They will no longer be able to dictate what projects are to be undertaken but will have to choose among projects in which the oil companies are willing to invest. And oil companies are not, of course, willing to invest in anything which would get us out of the oil trap quickly or which does not offer a marketable product to the oil companies.

Any project which would lower oil prices is bad for Mobil — that is all you have to know. After that you don't have to be an Adam Smith to know that the interests of Mobil and those of New Zealand don't mix.

When the oil crisis hit us in 1973 our Government spent six years thinking that it was an electricity crisis. It seems that they are going to spend the next six years pretending that the people who profit most from prolongation of the oil crisis are the ones that are going to help us to shorten it.

In the bad old days, people who got that much out of touch with reality were packed off to a looney bin. Nowadays they find an asylum in the Ministry of Energy.

Hindsight

Hindsight is the mother of nit-picking and politicians have no time for it. This should not prevent ordinary people from understanding that without hindsight there can be no foresight and without foresight we would be animals.

Moreover, hundreds of long-haired trendies like myself have through the years consistently shown a proper grasp of the nature of our energy crisis and of the proper means for ending it.

If we had had our way, from 1973 onwards, becoming independent of imported oil would have been a piece of cake. Taking 1985 as the crunch year, we would have had 12 years to play with which means that we could have afforded to achieve this transition at a comfortable rate of 7 to 8 per cent substitution and conservation a year.

Now, even if rational policies were adopted at once, the shift would have to take place at a punishing 15 per cent a year with a corresponding increase in social resistance and economic disruption.

To pay for this transformation we would have had all the money which was wasted on thermal power stations, Clutha and on drilling holes in the ground.

In addition, we would have had increasing savings on our oil bill which over the 12 years (in 1979 dollars) would have amounted to an average of $500 million a year, assuming no more than a 66 per cent increase in real oil prices between now and 1985.

We might have had to borrow a bit, but this money would have been used to make us the top western nation energywise instead of being frittered away and put into the pockets of the oil merchants money which is now used by these same people to buy up New Zealand at bargain prices.

Come back Ghengis Khan: all is forgiven

On the subject of hindsight, the public recently has been treated to Government statements which make it appear as if our present surplus of electricity is the result of a cleverly planned strategy which will enable us to earn the foreign exchange we need for our energy projects.

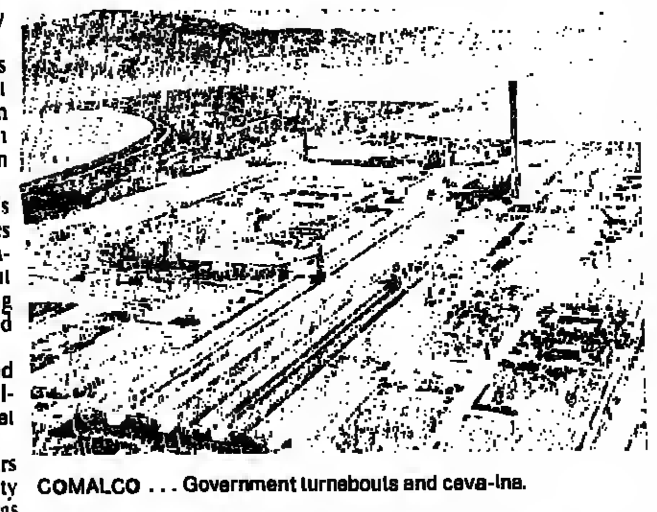
In pushing this line, the Government no doubt hopes that we have already forgotten that only a short while ago they stopped Comalco's plans for expansion by squeezing them hard to make them pay more for the electricity they use.

Just as not so many months ago they were treating Hunt Petroleum a la Ghengis Khan and drove such a hard bargain that Hunt towed away its rig in a huff.

Now the Government is down on its bended knees before these same corporations, begging Comalco to put in a new smelter and asking Hunt, please, come back and drill a few more holes.

These turn-abouts and cave-ins are hardly the hallmark of a Government that knows what it is doing.

Wasting a billion dollars on unnecessary electricity projects during the 1970s was an unforgiveable mistake. But now that it has happened, by far the best we can do is to use as much of this electricity as possible *directly*, and not indirectly, to substitute for petrol: *directly* and not indirectly, to lower our cost structure and thereby our rate of inflation and the price of our produce; and to let the rest spill over the dams rather than



COMALCO . . . Government turnabouts and cave-ins.

deliver it into the hands of energy-intensive enterprises which will lock us into a vulnerable energy future.

Already, there is talk of the need for a new coal-burning station in the Waikato if these energy-intensive enterprises should be given the go-ahead.

In other words, we are setting our feet on the path towards an old fashioned type of industrialisation which would expose us to the same intractable energy problems which now beset America, Britain, France, Japan, and so on.

Before long we would find that our marvellous energy advantage have been dissipated and that we shall have to pollute our environment or have recourse to nuclear power to keep going.

At the moment, New Zealand has only a transport fuel problem. By encouraging energy-intensive enterprises we are making sure that we shall end up, like the rest of the world, with a total energy problem.

I should perhaps make it clear that I bear no special hatred towards multinationals in general or international oil companies in particular. I would prefer a life under EXXON to one under the Supreme Soviet and, given the chance, I would vote IBM rather than National.

I think the interests of New Zealand and of some multinationals are quite compatible and call for mutually beneficial co-operation.

But I cannot accept that oil companies are reliable advisers or suitable partners in our effort to get rid as quickly as possible of our dependency on oil. Can you?

(Next week: Part III — What to do?)